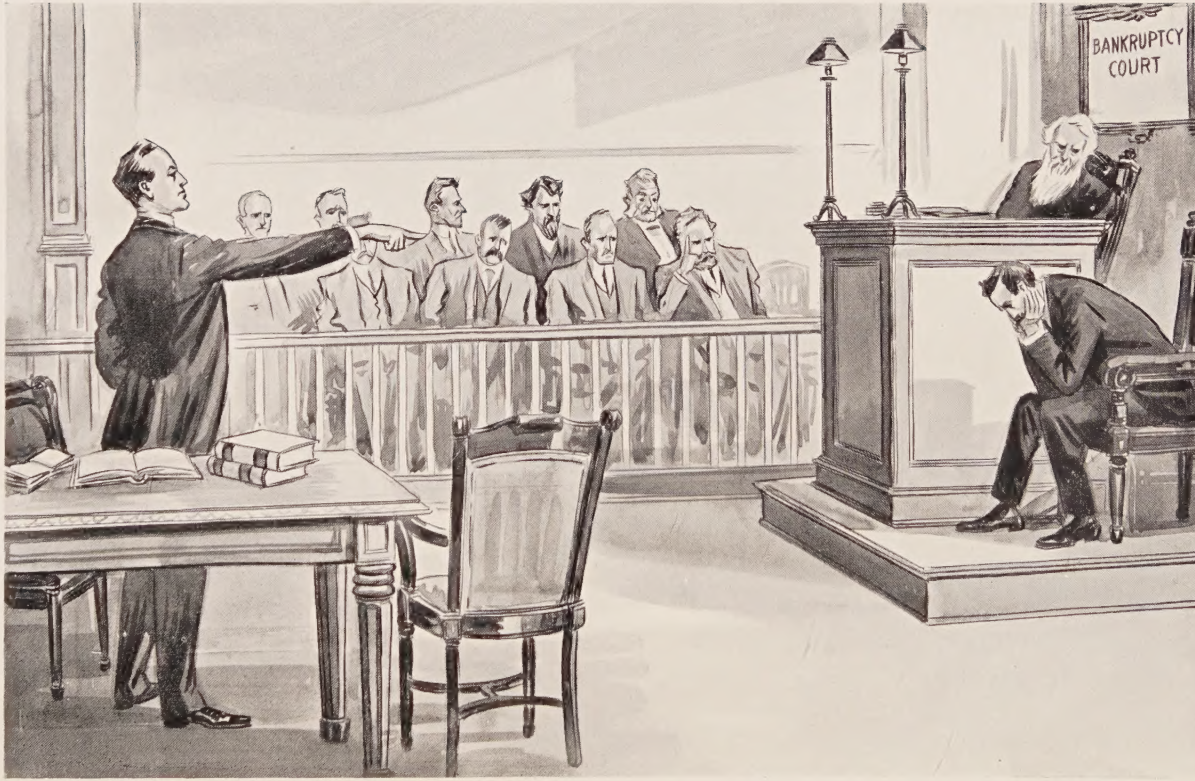
PRICE MAINTENANCE

THOMAS A. FERNLEY

PRICE MAINTENANCE



Why Was He Fool Enough to Work at No Profit?— See page 249.

PRICE MAINTENANCE

BY

THOMAS A. FERNLEY

1912

PHILADELPHIA

THE COMMERCE PUBLISHING COMPANY

Published December, 1912.

Press of LYON & ARMOR
Philadelphia

To My Father

T. JAMES FERNLEY

Pioneer and Pathfinder in the work of correcting

unprofitable conditions in business

This Book

is Gratefully Dedicated.

FOREWORD

From manufacturers and merchants in every line of business, there arises a bitter cry complaining of the lack of profits; of the great amount of brain energy, labor and capital required by their businesses with but a meagre return.

This book does not purport to be a Moses to lead business men out of the wilderness, but from the facts herein set forth and the remedies suggested, which are gleaned from many sources, it is hoped that there will be gathered much of helpful and strengthening character.

I was surprised and touched by the reception given my earlier treatises on business subjects; and had no idea that they would prove of interest or benefit beyond the immediate "circle" of the members of the National Supply and Machinery Dealers' Association, for whom they were prepared.

Upon repeated requests, I have been prompted to publish this book embodying in permanent form a larger work treating of the same subjects for a broader clientele.

I acknowledge with grateful thanks the assistance of Mr. George T. McIntosh, in connection with the

preparation of Part IV, relating to the COMPENSATION OF SALESMEN, and others who have contributed valuable data which has aided greatly in the preparation of this work.

With this explanation, gentle reader, I wish to thank you and retire, hoping shortly that we meet again, and be so fortunate as to labor under more satisfactory conditions, which shall have been created by the universal adoption of a higher standard of business methods.

THOMAS A. FERNLEY.

Philadelphia,
October, 1912.

CONTENTS

PART ONE.

PRICE MAINTENANCE.

CONTENTS—Continued

ILLUSTRATIONS

PART I

PRICE MAINTENANCE

PRICE MAINTENANCE

CHAPTER I

CHANGED CONDITIONS.

There have been many factors which have contributed to render modern business conditions most complex, and unfortunately the changes have been wrought so rapidly that business men have not fully realized and adjusted themselves to them.

Conditions during the past fifty years have changed to a greater extent than possibly was the case in any fifty years previous.

Steam and electricity have annihilated distance, bringing the people of the world face to face with one another, and therefore, face to face with entirely new problems in commercial affairs.

Factors Contributing to New Conditions

The inventor has been most active and successful in steam and electrical lines, and also in connection with the improvement of the printing press and other machinery for the duplication of messages and information.

Our postal system has increased its business some fifty-fold in the past 60 years, showing the fact that information of every character has been given broadcast distribution.

Offices of the business houses today are entirely unlike the offices of the same houses fifty years back.

Then it was the custom to laboriously pen a communication which would take days or weeks to reach the person addressed.

The methods for inter-communication were most cumbersome and consequently business was done on an entirely different basis than it is today.

We now find in offices large corps of stenographers and typewriters as well as machinery for recording the human voice on phonograph records, in turn to be rapidly transcribed on typewriting or duplicating machines.

Modern Inventions and Their Effect on Business.

We have addressing machines so that thousands of copies of quotations or letters to customers may be rapidly addressed. All these modern contrivances have served to make it easy to have quotations and communications prepared, mailed and delivered in a remarkably short space of time.

The complete development of the telegraph system and the universal use of the telephone renders inter-communication by written or spoken message, a most easy proposition, so that where merchandising was done, figuratively speaking, on a canal boat basis in the beginning of the nineteenth century, it is now done as if by limited express throughout the entire world.

In these years, of a half century ago, business was done on large comfortable margins and the question of PROFITS was not of such extreme importance as it is today.

Also, the increasing cost of selling a given amount

of goods has forced business men to look into the matter of profits very thoroughly, and, if possible, to find some remedy for the present conditions, although it is admitted that many do not understand the full significance of the question.

The increase in cost of distribution seems to be partly explained by reason of the decrease in values during the past decades. It is now necessary to sell almost *double* the quantity of merchandise to equal the *sales of twenty-five years ago.*

Increased Cost of Distribution

In speaking of this phase of the question, a jobber recently said:

"Twenty years ago we sold a bill of goods to a Wisconsin customer; the bill amounted to $546.01. This month we took the trouble to extend that same bill at prices now ruling, and found that at this time it would only amount to $359.17. In other words, the same goods are worth 30% less today than they were twenty years ago. To carry this illustration further, we will say that twenty years ago the profit on the goods was only 10%, which would be about $54.60. We will say that the entire expense of doing business, including travelers, store expense, etc., was 7½%, or $40.95; this would leave a net profit of $13.65 on the bill. Today the expense in dollars and cents would be precisely the same; and estimating the profit at the same percentage, we have a profit of $35.91, while the expense remains at $40.95.

Lower Values or Range of Prices

"The same bill which twenty years ago shows a

profit of $13.65 would today, therefore, show a loss. Of course, we have taken the rate of profit at a nominal figure in both cases, so as to show the workings of the plan, but the situation is even worse than it appears, for today, owing to the increased traveling competition, this customer would not buy a bill of this size from one jobber, but would divide it among several, while this smaller quantity of goods would be sold on a closer percentage of profit."

In fact, investigation among wholesalers in many varying lines indicates that orders now average in value but $20.00 or $30.00, where thirty years ago the average order in such lines was nearer $100.00.

Among other causes of increased expenses we find that with an increase in population, the number of distributors increases sometimes to a greater extent than seems necessary to supply the demands of the trade.

Cause for Increased Expenses

There were not as great a number of merchants in business as there are today. In fact, as the records show, the growth of the number of manufacturers and merchants has increased *all out of proportion* with the increase in population.

The number of manufacturers, wholesalers and retailers in many lines, has vastly increased. For instance, with a 100% increase in population, there has been a 200% increase in the number of manufacturers, wholesale and retail distributors of almost every line of merchandise.

Another feature which has resulted in smaller orders and greater expenses is the over-solicitation of the trade both by manufacturers and jobbers. Fre-

quently wholesalers and retailers whose purchasing powers are limited in certain lines, and who are located in towns expensive to reach, are solicited by ten or twelve traveling salesmen offering the same or similar goods.

Further, improved transportation facilities, local steam and trolley freight have made frequent small shipments possible and profitable.

The general parcels now operating at low rates in this country is doing its part in decreasing the size of orders, thus increasing overhead expenses.

As a result, the average value or amount of the individual order decreases, with a consequent increase in cost of handling, making necessary a more expensive organization to conduct the business.

The publication of expensive catalogs represents a development of recent years, which has added considerably to the expense account, as have also other modern advertising items which are generously provided for the benefit of the trade.

Again, the much-talked-of higher cost of living through general advance of prices in food-stuffs and other commodities of life has resulted in a necessary advance in the scale of salaries and wages paid to all classes of help. It has also caused larger daily expense accounts of traveling salesmen through advanced hotel rates and higher prices for livery and automobile hire for reaching towns far removed from the railroads.

Senator Lodge, Chairman of the Committee appointed by Congress to investigate the causes of the

higher cost of living, cited, among other causes, the following as the most marked:

"Increased cost of production of farm products, by reason of higher land values and higher wages.

"Increased demand for farm products and food.

"Shifting of population from food-producing to food-consuming occupations and localities.

High Cost of Living

"Reduced fertility of land, resulting in lower average production or in increased expenditures for fertilization.

"Increased banking facilities in agricultural localities, which enable farmers to hold their crops and market them to best advantage.

"Reduced supply convenient to transportation facilities of such commodities as timber.

"Cold storage plants, which result in preventing fluctuations of prices of certain commodities with the seasons, but, enabling the wholesalers to buy and sell at the best possible advantage, tend to advance prices.

"Increased cost of distribution.

"Industrial combination.

"Organization of producers or of dealers.

"Advertising.

"Increased money supply.

"Over-capitalization.

"Higher standard of living."

It is interesting to note that this Congressional Committee has recognized as one contributory cause the INCREASED COST OF DISTRIBUTION.

The increased value of realty in the central and

business districts of our large cities has forced wholesalers generally to pay rents far greater than in former years.

This, of course, means additional selling expenses, hence the increased proportion of expense to gross sales.

When the house is young the expenses are at a minimum, partners probably doing a large portion of the work. As time goes on, the necessity for more help comes, and the old employees are constantly looking for and receiving increased salaries. Such a condition is apparent in many houses, and any attempt to "prune off dead wood" would be very difficult and would work an injustice to those who have given their best years of loyal service to the house.

Age Brings Increased Expense Account

The service required by the trade today, including all these modern conveniences and with all modern facilities for the conduct of business, is far more exacting than formerly.

A more expensive organization is required from the bottom to the top of the house. Facilities and practices once considered ample are now antiquated and out of date.

Service More Expensive

Better packages are demanded; better shipments are looked for, and frequent small orders take the place of periodical large orders, heavily increasing the cost of securing and handling business.

Advertising, in all its different forms, on a liberal scale, is required and expensive selling helps in the

way of high grade printed matter, demonstrators, etc., are furnished the trade gratis.

Therefore, we face an ever increasing expense account and a vanishing profit account, which requires that the question of the maintenance of a fair scale of prices should be very thoroughly considered and conditions should be studied so that it would be possible to handle them in a manner which will meet the present situation properly.

CHAPTER II.

COMPETITION.

Now, in order to meet these increased expenses, the margin of profit must not be reduced, but on the contrary, a larger margin of profit is imperative.

Under these conditions, the question of PROFITS has become, to the business world, an issue of the day.

Profits an Issue of the Day

It has been perhaps the subject of more serious careful consideration, by manufacturers and merchants, during the last decade, than any other topic.

In the following pages it has been endeavored to learn what landmarks have been set up and to discover how much could be found out regarding a matter so important as the MAINTENANCE OF A FAIR SCALE OF PRICES, in the hope that business men could profit by such information and that this means would be found less costly and more pleasant than the severe teachings of experience with its consequent loss of time and money.

The causes contributing to unprofitable conditions in connection with the sale of merchandise are many and varied. They are interwoven and involved in one another so that they are difficult of classification, but it may be well to consider a few of the causes and to mention remedies which it is possible to apply.

One of the most prolific causes of cut prices is a

misconception of what competition really is, and of how it should be conducted.

Definition of Competition.

Competition may be defined for the purposes of this discussion a contest in which two or more are striving for the same object, which only one can possess; a contest where two or more are striving to increase their share of things desirable.

In the business world this object or desirable thing takes the form of a coveted order, or the trade of a particular person, company or community.

Functions of Competition

Competition makes life worth while by adding zest, spice and spirit to our daily tasks. It gives us an incentive to make better goods and to conduct business along more progressive and enterprising lines than do our fellows. It gives us ample opportunity to prove our ability and leadership. Competition is a great balance wheel—it preserves the equation of supply and demand; it keeps the quality good and the supply abundant and accessible. Competition is the very essence of business activity and is necessary for our continued progress and advancement.

Concretely, let us see what competition has done for us; for all must realize the important part which competition has played in our daily life. We all know that it is responsible for the high grade of civilization

which pervades the world today; for the development of our country and of the cities, as well as the great advancement in the arts and sciences. In fact, throughout the entire field of human activity, the wholesome effect of competition has been felt and its beneficial results are everywhere apparent.

The Benefits of Competition

We all know that competition makes better men of us and keeps us keyed up to the highest pitch, developing the highest standard of efficiency. How could we, ourselves, be endured if we had an exaggerated idea of our own importance and if we felt that we were beyond competition and could not be replaced. It is safe to venture the opinion that life would be unendurable for those about us under such conditions.

Competition Essential

In the business world, competition has given us the superb passenger traffic service on the railroads of America to-day, with speedy trains affording every convenience and luxury.

What a contrast is presented by the service of the government owned railroads in European countries where competition does not exist, and where the standard of service is as low as it is high in this country.

Competition has resulted in the making of better grades of goods by manufacturers; of the designing of better patterns; of a great improvement in the finish and color of many lines of goods, and of the development of a higher standard of quality in manufactured products.

It has resulted in making the service of manufacturers and merchants the acme of perfection, and, in placing the distributing agencies of the country in the finest physical condition, to serve the trade to the best possible advantage.

Progressive Competition

There is also a benefit derived from competition which is not so obvious as other benefits, and that is the elimination of those *unfit* from positions of superintendence.

It is freely admitted today that there are many men occupying positions of management in business, who would be far better off were they under the direction of others who are more competent.

It is also well known that there are always hanging on the outskirts of business, these incapable men who are pestering and impeding the rest of the world with poor goods, poor service, cut price methods and other business practices which are most harmful.

The elimination of such unfair competitors and the ensuing confinement of business to the more capable, is a good service to the community. It is also a good service to the eliminated men who are placed under the guidance of the more capable, and are not forced to longer endure the responsibilities, anxieties and privations inseparable from attempting the discharge of duties beyond them.

Elimination of Incapable Men

The conduct of business by capable men—men who know enough to sell for a profit, and to sell only a good quality of merchandise—makes possible the payment of a fairer scale of wages and gives the

public the opportunity of buying better goods than formerly.

Various Kinds of Competition.

Now, as to the character of competition in the business world. This depends very largely on the individual personality of those engaged in the various lines of business. It is impossible to separate the private temperament which characterizes the individual in private life from the temperament and standard of conduct of the same individual when engaged in business.

Character of Competition Dependent on Personality

If the person be far-sighted, broad-minded, intelligent, fairly disposed and is not obsessed with the idea that he wants the whole earth, his competition will be FAIR.

Looking at the reverse side of the shield, however, if the person is narrow-minded, short-sighted, ignorant, suspicious of others and disposed to watch his opportunity to take unfair advantage; if he is revengeful and has a tendency to be satisfied with nothing less than the entire earth for himself, he will be a vicious competitor and *his competition* will be of a most UNFAIR character.

It is small wonder that prices have been cut on many lines of goods to a point where there is no profit in them, when we consider the fact that competition among manufacturers and merchants has in most cases been absolutely unrestrained.

Among the hundreds or thousands of merchants

handling similar lines of goods, it is but natural that there should be those who pursue unbusinesslike tactics, and their actions to a certain degree affect the actions of all the others.

At first possibly all try to get a fair profit, but right here, we have the opinions of all these thousands of men, more or less intelligent or well informed, good merchants and poor merchants, as to what constitutes a fair profit.

Then, with the strife for business, even the prices first made are reduced and they are absolutely at the mercy of every one who chooses to make a football of them.

This fact, coupled with the natural aggressive and varying temperament of men, seems to furnish the cause for the various kinds of competition, which may be broadly defined as *fair* and *unfair*.

Fair Competition

The character of competition to be commended is that which results in economized production, faithful and efficient service, high quality of goods, fair prices and reasonable and truthful publicity. This competition is simply incidental to each man's doing his best for himself, but, beyond this point, it begins to mean each man doing his worst for his neighbor and the meanest fellow of them all setting the pace.

The combat for business should be conducted according to the rules of honor, and not by covert practice of treachery, dishonesty and deceit. A steam roller in a rose garden is no more out of place than a pig or pirate in the fair field of merchandise.

To be fair, competition need not be less active, but it must be less bitter and less senseless. It should be the aim of one in business not to talk any other than his own goods; to be acquainted with no other than the buyer, to refrain at all times from speaking ill of a competitor; of his ability, his facilities, his manner of conducting business, his goods or his credit.

What, therefore, is a fair, equitable basis on which to found a policy along the lines of which business may be operated?

What must be done to win and hold customers?

Will not a policy like the following prevail?

A Good Policy to Follow

Offer to your customers the advantages of dealing with a house which will at all times maintain a high standard of quality in their manufactured products. Offer them prompt and correct service; show them that they will at all times be treated with uniform courtesy, honesty and fairness. Display a pleasing, enthusiastic personality and an accommodating disposition, coupled with an ability and a readiness to serve with intelligence, and at all times make it clear that your prices are uniformly right and as low as is consistent with good quality and efficient service.

Is not this, then, the basis of fair competition?

Operating under such a policy, the preliminary work will closely resemble the slow and tedious work of preparing for and laying the foundation of one of our large sky scrapers.

Likewise, the work of building a business based

on fair competition will undoubtedly be slow and perhaps troublesome, but the foundation will be strong enough to bear the weight of the largest business and ample enough to weather the stress and storms of bad times, broken contracts, unfilled engagements, dishonest practices, bankruptcy and prices broken by forced sales on the part of insane and unfair competition.

Slow But Sure Success Based on Fair Competition

The house which is builded on such a strong foundation will endure and prosper years after the house indulging in unfair competition has been gone and forgotten.

Competition in which the contestants attempt to secure business with due respect to honorable business methods and without chicane, dishonesty and covert practices, can be, and is being carried on by thousands of business houses.

In some connections, when competition has been discussed, there has often been raised the question of the *small* men and the *big* men in business.

A merchant who does a large business recently remarked that the big men in business today were not necessarily those who had the largest establishments and who did the greatest amount of business.

He maintained, that the *big* men in business today, were the men who showed by their actions that they were in business to make a living profit; that they were above "gum-shoe" methods, secret rebates and underhanded dealings of all kinds, and who made it a practice not to hold malice

The "Big" Men Are the Fair Ones

against their competitors who admitted weakness by persistently underselling.

He added that the *small* men were those who demonstrated by their actions that they were not in business to make a living. The *small* men were those who resorted to all kinds of unfair competition, and whose object was apparently the dissipation of their assets.

These, he claimed, were the *small* men, even though they might operate the largest businesses.

Of course, to secure business and to maintain a good volume by fair means in the face of competition with others who may possibly not be inspired by such a spirit of fairness, is a problem the solution of which is by no means easy.

Every business man feels that there is a certain volume of business to which he is rightfully entitled. Some of them appear to feel that they are entitled to much beyond this, and then it is that the trouble begins.

Ambition to increase the volume of business is commendable, but the methods pursued to accomplish the desired end should be strictly honorable and above criticism.

Unfair Competition

In a lecture on "The Future of Capitalism in a Democracy," recently delivered before the students at Kenyon College, Dr. Charles W. Eliot, President Emeritus of Harvard College, said:

"The democratic doctrine that neither capital or labor should seek monopolies involves the maintenance of competition; but the democracy, while recog-

nizing that competition is indispensible to progress in education, in industries and in commerce, does *not* believe in competition without limit.

"It distrusts the competition which is pressed to the abandonment of profit. It perceives that the competition which is essential to freedom and progress may be maintained without hostility to competitors or destructiveness.

Competition Without Limit Undesirable

"As the President of the United States Steel Corporation expressed it recently, at a dinner given by an association of co-operating and competing companies or establishments in the iron and steel industries:

" 'You believe in competition, but not in hostility; in rivalry, but not in antagonism; in progress and success for all, but not in the punishment or destruction of any.'

"This recognition by capital of the true democratic doctrine of competition over and against monopoly is a striking manifestation of the effects of democracy on capitalism."

Aside from all ethical ideals, the fact stands out in bold relief that the policy of honesty, fairness and square dealing in business produces greater pecuniary benefits than any other policy.

Said Mr. Henry Holt, the prominent New York publisher, in an address at Yale University:

"We are, in the business world, losing that discreditable admiration for 'smartness'—that cheap combination of shrewdness and guile which in years past we so highly esteemed.

"We are losing our regard for it, because, as we take longer views of business, as we consider it more as a permanent occupation rather than a temporary and changing condition, the cheap shrewdness of commercial trickery proves itself a failure.

A Lessened Admiration for Mere Smartness

"In the broader view which men are taking today, business loses rank as an END, and becomes a MEANS TO AN END—a means for making a livelihood, a field of wholesome endeavor, and a school for the development of CHARACTER and MENTAL VIGOR.

"In the professions, something more than money is essential to professional eminence.

"There are rich shysters, and rich quacks, but we do not commonly call them successful. We withhold the word, because success in the profession implies observance of the set standards of professional conduct.

"In the same way, standards of business morality are being set up in the commercial world, indirectly perhaps, and often almost unconsciously through trade associations and the frequent meetings of merchants for the exchange of views and experiences.

A Higher Standard of Business Methods

"A business house has today a much more definite relation to the rest of the trade than formerly.

"Just as the rich quack, or the rich shyster lacks a subtle something which makes success, something which robs him of joy in his work, so the merchant or the producer who merely makes money, *loses* and, what

is more, feels that he has lost something essential when his practices have got him a bad name in the trade.

"How much oftener now than formerly we hear used phrases which mean moral standards in the business world, phrases cast off carelessly in conversation on business topics, as for instance, 'So and so-old house, high class concern; so and so, big house, but a bad name in the trade.'

"These simple phrases, as merchants use them, mean much, for they indicate the development of higher commercial standards for success."

Valuable assistance to clearness of vision on the part of the business man may be obtained from an endeavor to answer the question: What would be the result if every business house on this territory were to pursue this same line of action as I now pursue, cutting prices, and using methods which give me an unfair advantage?

If the answer be "demoralized, unprofitable conditions," its unfair immoral aspect will thereby be clearly defined.

Therefore, it is quite apparent that it is essential to bring about a standardization of business conduct, so that the *methods* governing the rapid exchange of commodities, services and money—the *business morality* involved—may be as reliable as the grades of merchandise with which it deals.

What does this mean?

It means that a fixed and undeviating standard of commercial ethics has, and will have, a potent influence in furthering the economical development of business; and that therefore anything that business

men can contribute to this end by making their transactions ethically more fair, just and dependable, will in the long run contribute to their final success.

Unfair competition is based on the policy of "each one for himself and the devil take the hindmost."

Those conducting their business along these lines may be expected to show an utter disregard for the rights of others. They see fit to deprive a competitor of a square meal by starving themselves.

They operate along the lines of the old injunction, "Get business; get it fairly if you can, but *get it*."

In this conflict, a very serious error is continually made by considering that the sole theory and practice of competition is based on mere price comparison, and each seems to forget that there is probably enough to "go around" and that it is not necessary for them to get every bit of business they strive for.

Competition in the form of mere price comparison is the most degrading form of competition to those who indulge in it.

Price Competition Not a Good Thing

It might be termed gradual annihilation, for it has no ending, and under such a condition the cost of goods is often forgotten and the red flag appears before the doors of the establishments contending for the business.

So many conditions surround the prices of scores of competitors, that it is difficult to know where the end will be, if the sole argument for business is one of PRICE.

Price Competition merely means a bargaining process—a haggling process—a bidding and rejecting,

an experimentation with offers on either side, bluff, and more or less deception, an attempt on the part of each side to read the mind and force the limit of the other side—all these constitute competition in which price alone is the argument of the seller.

Said Mr. J. B. Adams, Sales and Advertising Manager of Iver Johnson's Arms and Cycle Works, Fitchburg, Mass., recently:

"The only phase of competition which can benefit humanity is quality competition, and that is the exact antithesis of price competition. The two cannot ride in the same boat. When price competition begins, quality competition ceases.

"Price maintenance, that is, the insistence of a manufacturer that his goods must be sold at a given price, is a powerful but beneficient force which destroys the evil—price competition—and preserves the good—quality competition.

"Let us consider a fanciful illustration.

"Suppose Congress should decree that six dollars must henceforth be the retail price for a certain style of revolver, also fixing arbitrary commissions for jobber and retailer. Is competition killed? Not at all. They have simply wiped out price competition. The rivalry between manufacturers is as intense as ever, but it is wholly a rivalry in excellence. Each gives the last possible penny in quality. The consumer gets the long end.

"We will not introduce a reform wave which effects the repeal of the above statute and forbids price maintenance in any form.

"Result: The manufacturer making the least

desirable revolver and whose trade is, therefore, smallest and least profitable, cunningly divests his product of a little quality where it won't show and floods the market by declaring a retail price of four dollars. Other manufacturers follow suit. Unchecked price competition among jobbers and retailers breaks the four-dollar price until profit disappears. Said jobbers and retailers clamor for prices which will restore their profits. Again the manufacturer's price of the least desirable weapon is cut, with a corresponding sacrifice of quality, and again the others follow suit.

Price Competition Ruinous

"Where will it end? The manufacturers can combine or they can all fail.

"Now has the consumer benefited? No! he has paid out a lot of money for something he did not want. Instead of owning a revolver that would have been a source of pride and satisfaction for his whole life, he has acquired a dangerous, fraudulent, crude piece of junk which he will probably give or throw away.

"See what price competition has done to food products, sewing machines and a hundred other lines. It wrecked the bicycle business and drove over two hundred prosperous firms out of business. To-day the bulk of bicycles, which ought to be made as accurately as a high grade fire arm, conform rather to the mechanical standards of agricultural machinery. It was miserably made, fraudulent bicycles that temporarily ruined the glorious sport—nothing else. To-day, there are not more than five factories that dare attempt to produce high grade machines."

The business men who fail to secure a price sufficient to cover their overhead expenses and fair living profit and who feel that price comparison or price competition is the only way to get business, should look to some lines of work other than managing businesses.

Take, for example, stores where jewelry, fine dress goods, linens, men's furnishing and other goods of quality are sold. In these places, price is mentioned last and the comparisons are made on a basis of quality, attractiveness of design, and other points of excellence or superiority.

If objection is made to the price, the buyer is told, in a nice manner, "It is true that the price is not the price of cheap goods, but for the quality and style of the goods, the price is a very fair one."

No price argument is indulged in beyond such a statement on the part of the representative of these houses selling goods of exclusive design and quality and the reputation of such houses for reliability, fairness, good service and excellent goods, becomes well known in the community,—and there are hundreds of such establishments throughout the country which are to-day among the most respected and prosperous in their several communities.

Government Enforces Fair Competition Among Public Service Corporations

The government of this magnificent country of ours spends millions of dollars in disseminating information in endeavors to equalize rates and prices, in establishing standards of foods and measures and in teaching the people how to live and be healthy, while all newspapers devote a large portion of their space to quoting market (*i. e.*, fixed or

asked) prices and conditions. Our National and State governments practically eliminates price competition by making rates for railroads, both for passenger mileage and for freight, by making agreements for telegraph and telephone service on fixed schedules, and above all by compelling through the courts all plaintiffs to prove that their claim is based on the market prices or value before it is accepted as just and reasonable. All this tendency is overlooked and price competition still seems to remain uppermost in the minds of many otherwise good merchants.

Price cutting, and continued violations of trade ethics may temporarily increase tonnage, but as before stated, the competitors of a house following such methods will surely retaliate, and demoralization will result.

Price Cutting Lowers Values

In the strife for trade, it must be borne in mind that money can only be made by sustaining values, and values *cannot* be maintained if we exhibit no "backbone" and confidence in our quotations, permitting every customer and competitor to bear down our prices.

Ruinous competition in prices still exists, though hardly to the extreme of fifty or sixty years ago, when frequently opposing stage lines carried their passengers free, and steam boats sometimes not only carried them free, but even threw in the meals.

And yet, is this much different from the "free goods" of which we hear so much to-day, where a seller will throw in, free of charge, so many goods if a certain quantity is purchased?

Or, is it different from the extra compensation which some manufacturers offer to dealers' salesmen as an incentive for them to push their goods?

Exact knowledge of costs and fair selling prices should carry with it a determination and backbone of staying quality. When a fair bid is made and one is called upon to take the business at an absurdly low price, said to have been made by a competitor, he must be brave enough to pass the business until, by a continuance of such a practice his foolish competitors meet their inevitable end.

In Germany, there is a very strict law in force against UNFAIR COMPETITION.

The law is a part of their civil law code, and the matter is handled in the following manner:

The German Law on Competition

If one person thinks another person harms his trade by misrepresentation, humbug or lies, personally or through travelers or agents, or by advertisement, etc., he can go to the public prosecutor (Staatsanwalt) and complain. (This is a government official whose chief work is to follow any crime or act against the security of persons and the welfare of the State and its subjects which comes to his knowledge.)

If you complain about unfair competition, you have to bring certain proofs against your competitor, and if the public prosecutor thinks them justified to a certain degree, he gives the whole case to the ordinary law courts (Strafkammer), in which the case is followed and judged as any other case, the plaintiff in this

case the Staatanswalt, who is an employee of the Imperial Government.

If you, as the plaintiff, think that the accused has caused you a loss by his unfair competition, which you can express in provable sums, you, at the same time, go to the law courts as secondary plaintiff (Nebenklager), and these two cases (the public and your private cases) are judged together.

It is considered unfair competition also, if your competitor says in his advertisement that he has already sold 5,000 machines and he has not, or if a newspaper says they have published 50,000 copies a day, and that is not true.

Or, if a house advertises to sell their stock under cost price, and that is not true, you as competitor can claim the protection of the law.

CHAPTER III.

VINDICTIVE COMPETITION.

Business men living in propinquity will continually fall afoul of one another, but such relations should not become so chronic that a "vendetta" is established.

Petty personalities should be entirely eliminated from business. They are objectionable in any place, but if one is in business to make money, he should avoid building up strife and allow no narrow feeling to becloud the real issue and to interfere with his profits.

Petty Dislikes Out of Place in Business

You are not in business to regulate others. Your purpose should be to show the trade that your house will give them best service, prompt deliveries, the best quality of goods and values which cannot be excelled. In other words, do not waste your time talking about your competitors or planning to "euchre" them, but wax enthusiastic over your own goods, your own facilities, and the advantages which you have to offer.

Personal enmity will be found to be a serious obstacle in the way of profits.

Competitors in no line of business have great

horns or cloven hoofs; they do not infest dark alleys; and wear slouch hats and comforters, going about smelling of gin and breathing curses, as does the villain in the low melodrama.

All Made of the Same Clay

On the other hand, many of those who are thought to possess such undesirable features may be found on the removal of their hats to have no horns; indeed, if they took off their coats one might find a pair of beautiful angel wings.

If a friendly attitude is assumed toward neighbors in business and a willingness is shown to credit them with the possession of common honesty and rectitude of purpose, there will be some hope of keeping faith in the observance of the basic rules of good business.

If, on the other hand, suspicion and doubt of competitors is allowed to lurk in one's mind it is likely that the competitors will protect themselves against supposed lack of good faith by underhanded methods, each vigorously blaming the other and deploring the condition which they themselves have assisted in creating.

The dread of retaliation should cause men to pause before entering into vindictive competition.

Driven by his exasperated instinct of self-preservation the seller who thinks himself attacked or injured, is prone immediately to react.

This attitude is natural among the best of men, for the more one recoils from doing an unjust or unfair action, the more he resents suffering such an action to be done towards him.

It must be borne in mind, however, that the prerogative of vengeance is not vested in one's self and that private retaliation which finally hits not only the first offender, but all others, innocent and guilty alike, is not countenanced by good business men.

Revenge by Slashing Prices Is Foolish

If a merchant desires to retaliate on a competitor for specific instances of unfair competition he should give the matter very careful thought before adopting any retaliatory measures.

He should consider the competitors' strength, the probability of a spread of the cut price, the effect of the cut prices on his goods on other commodities, the probable length of the fight and he should make a fairly intelligent forecast of the result.

Shall he, then, inaugurate a price war, and endeavor to meet his competitor on his own ground?

Obviously, this course is a dangerous one for several reasons.

In the first place, it is not always possible to determine beforehand who will be the survivor.

Finally, even the survivor, when all is over, finds prices so demoralized that years may be required to again place the goods on a paying basis.

Under such circumstances the trade should not retaliate in kind by starting a price war.

They should improve their quality and their service, both in the sales, advertising, shipping department, looking carefully to their relations with the trade and they will probably find that their extra efforts toward procuring business during the battle, will result in a permanent increase thereafter.

If vindictive competition is engaged in, the trade is soon aware of the facts.

Buyers use the unfavorable conditions to the best advantage and exaggerated statements having a downward tendency on price run rampant.

An Open Fight Kills Profits

One house is pitted against the other, the salesmen are fired with the spirit of the fight, and profits are entirely overlooked in the struggle for orders.

The contestants are bitter in their struggle. Meanwhile, the shrewd customers take advantage of this state of affairs to load up at sacrifice prices while it lasts, although they secretly pity the sellers for the lack of brains displayed.

Then, we have participating in vindictive competition he who refuses to co-operate with the majority of his competitors.

Such a one often maintains that his competitors are "crooked," that they have it "in for him," and that they "knock him" and that therefore he will have nothing to do with them.

The Unruly Competitor

He then endeavors to seek to discredit the work of fair-minded competitors and all those in accord with him by proclaiming himself a "cut price" house with the usual well known reference to "trusts," "combinations" and "independent dealers."

Without question, there can be no form of competition more vindictive and more unpardonable than this. Not only is he without the excuse of seeking to

enlarge his business or his field of action, but he is seeking to discount the efforts of those who, working for their own interests, must necessarily be advancing his at the same time, and the ultimate result is that in injuring them, he harms himself. Like Samson of old, in pulling down their structure he buries himself also, but with the difference that instead of destroying his *enemies* he brings ruin upon those who *never injured* him.

It will be seen that the man who enters upon a campaign of vindictive competition undertakes an exceedingly large contract. Not only must he cast himself loose from all his friends and associates in trade, but he must adopt a course of action contrary to the usages and customs of civilized society. Alone and unaided, he must pursue his way, incurring the condemnation of all judicious-minded men and not even retaining the respect of his customers.

Self Abnegation

An unkindly feeling is often felt by older houses when a new competitor is announced in their territory.

They refuse to "recognize" the newcomer—they proclaim that there are are already enough houses to fully supply the demand and numerous prophecies are made regarding the length of life of the newcomer.

Efforts are freely made to handicap, discourage and even to put him out of business.

Sometimes, if both houses are fairly supplied with capital, the effort to put the new house out of business is so successful that both the new jobber and the established concern finish in bankruptcy together, but

more often both just about manage to stave off the final day of reckoning and meanwhile both work and scheme how best to play "give away" to the public, each assuring himself that while he loses a dollar his competitor loses two and the game of *leprosy in business* continues. Better by far to have a talk and results will be far more satisfactory.

Impossible to Prevent Newcomers in the Business

The following instance of vindictive competition illustrates its operation in the retail trade.

In the little town of Crystal Lake, Nebraska, there was some years ago a merchant, one S. L. Davis, who always got a fair price for his merchandise, enjoyed a large trade, gave good service and was prosperous.

One day two Swedes started in business and announced their intention of giving Davis a sharp run for his money. They loudly proclaimed that they could beat Davis's prices every time and would put him "down and out."

A Case of Local Vindictive Competition

At the time we speak of, a customer went into Davis's store to buy a box of horse shoe nails. Davis asked $6.50 (his cost was $5.50). The customer demurred. He said he thought he could beat it at the Swedes.

"Well," said Davis, "go down there and tell them that I'll sell you the box for $4.00 and as they say they'll undersell me and put me out of business, they'll probably beat it."

The customer went down to the Swedes and asked the price of the nails. They knew that he traded with Davis and asked how much Davis wanted. He told

them $4.00. They hesitated and finally said, "All right, take them along."

The customer said, "Oh, no, Davis only wants $4.00 and you claim you can beat his prices. How low will you sell this box?"

"Well," said they, "$3.75 is the best we can do; will you take them?"

The customer did take them at a flat loss of $1.75 a box, not counting the running expenses, which were certainly 25% added to cost or 20% on the selling price.

And Davis and the Swedes in this little town are not the only ones who ever played in a game like that. Often business men feel called upon unwittingly to play the fool because some competitor has (or they THINK he has) done a certain thing or quoted a certain price.

A Mean Practice.

There is also, unfortunately for the cause of fair profits, a class of vindictive salesmen who are not above pursuing a "dog in the manger" policy. If they find that others have secured the business, they are not content unless they can do some "backbiting." For instance, a man, representing a jobbing house had sold a bill of goods, let us say, at one, two, three or four dollars an article to a retailer. Along came the representative, a personal friend of the retail buyer, who said to him, "Bill, have you bought your goods yet?" He said he had. "What did you pay?" "I paid one, two, three and four dollars." "Why, who had the nerve to roast you like that?" "What ought I to have bought these for?" "Ninety cents and on up to $3.90."

He did not say that he would sell them for that, but he told the fellow he ought to have bought for that, and chuckled in glee when he saw that even if he did not get the business, he had spoiled it for his competitor.

The protection of profits against such a contemptible and niggardly practice is well nigh impossible.

All salesmen should, however, be educated and urged to refrain from any such detestable form of competition.

A Striking Case of Bitter Competition.

In the early part of 1912 some manufacturers of a cast iron product who were selling their product at unremunerative prices desired to improve conditions surrounding the sale of their commodity.

They accordingly held a meeting, and found that the cost of production was $30.00 per ton. The general selling price was $28.00 per ton, each thinking that his competitor's cost was higher than his and that by some means he enjoyed an advantage in cost of production which was not enjoyed by his fellows.

At the meeting alluded to, it was made clear that by no art of legerdemain or by no feat of the presdigitateur, could the cost possibly be less than $28.00 per ton.

The meeting was a typical one with deep feeling of one competitor against another and deliberations were conducted throughout the entire day. When it looked as if a point of agreement would be reached, some objection would be raised and defeat much of the work which had previously been accomplished.

The manufacturers left the meeting with a well defined knowledge of what the cost of production was, but as far as an understanding of the other's future course of action was concerned, they were not informed.

A few days later, a manufacturer located in Chicago who had been at the meeting, felt anxious that a better condition of affairs should exist, but he felt that it would first be necessary to teach his Cleveland competitor—who was his strongest rival—a severe lesson and make conditions so unbearable that he would cry for mercy.

He, following out this intention, quoted some of the best trade in Cleveland a price of $25.00 per ton on his goods. The dealer to whom the quotation was made phoned his local manufacturer, who looked into the situation with the result that he requested him to purchase secretly on his account 2,000 tons of the material at $25.00 per ton.

This the dealer did, entering the order for the entire 2,000 tons. A few days later, a friendly manufacturer who was trying to get the warring factions together, visited Cleveland and found what the manufacturer had done. He also was confidentially let into the secret of the way in which the Cleveland man had met the situation and saw that he secured 2,000 tons of Chicago goods at a price of $3.00 less than the actual cost of production.

Later the Cleveland manufacturer went to Chicago and the Chicago manufacturer confidentially told him the story of how he had euchred the Cleveland manufacturer—how he taught him a lesson he would not

forget soon; how he had taken 2,000 tons of the most desirable business of this Cleveland man away from him.

In this instance of vindictive competition, the Chicago manufacturer felt that he was the victor, and the feeling probably did him good, but as the material advanced about 20% a few months later and the Cleveland manufacturer had the pleasure of supplying the trade with material costing him $3.00 less than he could have produced it for in his own foundry, we fail to see how the Chicago man got the revenge he was looking for.

This may be an extreme, isolated case, but it actually happened, although not in the cities mentioned, and it may be pertinent to remark that the intelligent manufacturers in that line of business are still indulging in such competition and employing methods which are just about as insane as any unbusinesslike actions could be.

Hiring Competitors' Salesmen.

A vindictive feeling has often been engendered among competitors by the hiring of one another's employees.

Hiring Competitors' Salesmen and Resulting Bad Feeling

Where salesmen and confidential employees are engaged by a competitor when they are in the service of another house, a struggle to hold certain valued trade generally results.

The salesman considers that he can carry "his trade" to the new house, while the old house, which has spent a vast deal of money, perhaps over a long period

of years, in developing this trade, makes every effort to hold it.

Securing in this way an intimate knowledge of the business of the competitor, steps will be taken by the new house and salesman to swing the trade to them, and alienate the customers of the salesman's former employer. This will invite retaliation, and while condemning such methods the former employer may use tactics similar to his competitor's, and a general price cutting, inducement offering, baiting contest will take place in an effort to hold or secure the trade. The combating houses needlessly sacrifice their profits; values in the entire territory are reduced and unprofitable conditions prevail until the "war" blows over.

Forget the Past

Then, when harmony is about to prevail, they sometimes again break out in a senseless argument as to "who was to blame," and repeat a burden of past history which should be buried deep instead of being again repeated needlessly and employed to bring about discord and a continuance of the unprofitable conditions.

Instances have been known where the employment of a single salesman under such circumstances has caused a loss of scores of thousands of dollars.

In some sections this has been avoided by an understanding among those in the same line of business to the effect that they would consider it a breach of common business courtesy to treat with each other's employees unless they were free of contract; and without first finding out from their competitors whether or

not they will be put to any serious inconvenience or annoyance through his action in so doing.

This does not mean that a salesman should not be free to better himself by a change. The point is, that extreme care should be taken to take no action which would tend to disrupt the business organization of a competitor through hiring his employees, remembering that the Golden Rule is quite as applicable here as elsewhere, and also that your competitor may also overbid you for the services of your own people.

CHAPTER IV.

UNINTELLIGENT COMPETITION.

The commonly accepted statement that at least nine-tenths of all the men who go in business either fail or go out of business with their resources reduced is verified in almost every line of commercial activity.

Perhaps an important reason for these failures is the fact that mercantile or manufacturing pursuits are not confined to those who have a thorough knowledge of any business and who have sufficient brains to sell at a profit. Instead, entrance into any line of business is about the easiest thing in the world.

No Preparation Required for Entrance Into Business Life

The lack of proper business training and experience, prior to undertaking to manage a business, is a factor which ofttimes handicaps a man who starts in business sufficiently to preclude all reasonable chance of success.

Athletes train daily, mechanics spend long terms in apprenticeship, teachers years in schools and colleges, lovers a decade in wooing and courting, musicians and physicians a lifetime in study and practice, but the man who wants to go in business, just puts his name over the door and thinks he knows how to do business!!!

Do you wonder that the result is often failure? Temporary success is often attained; staying in busi-

ness for any length of time and succeeding, however, is quite another matter. But, as long as they continue in business, each one furnishes competition to the legitimate trade for this period, and there are always enough of such neophytes, who dream of untold riches concealed in the business, to constantly block the field.

Some newcomers must test the fire of competition before it will be believed that it is hot, or that it can consume persons so great as they.

There are others who have been employed by those in the same line of business and who branch out for themselves, in their ambition to progress, but they have sufficient brains to know how to get a share of the business without making it unprofitable for every one else, themselves included.

These INTELLIGENT ones are the ones who ultimately succeed—the rest soon reach the end of their rope.

Those who must cut prices to break into the market stand a good chance of losing everything they have, as well as of being unable to pay their creditors for the material which they have re-sold at absurd prices.

Experience shows that new concerns, manned by those without capital or ability, obtain credit altogether too easily and are not closely questioned about their plans, their ability, their possibility of success, etc.

Suppliers of raw material have sold goods to new manufacturers who have had no possible chance of success. These manufacturers have made up some

goods, have sold them in a manner calculated to hasten their end, and in a short time have gone their way, leaving in their wake a demoralized market, blasted hopes and angry creditors.

Credit Easy to Obtain

This competition on the part of such novices is not founded on the basis of either intelligence or understanding. Neither is it confined to any particular lines of business.

Many wholesalers and manufacturers appear and disappear in rapid succession, all practicing the same tactics.

New retailers spring up—cut prices indiscriminately—spoil many a good merchant's chances for making a living profit and disappear, leaving the usual trail of bad debts.

New printers, plumbers, electricians and other artisans enter into business for themselves with a smattering of knowledge of their trade and an absolute lack of knowledge of how to figure and secure business at a profit.

These novices bid low prices on contracts and other new business, and to their surprise, get the orders. In the first place, they don't know how to figure. They don't know what a job costs them. If they buy the goods to re-sell, they don't know how much to ask to cover operating expenses and a fair net profit.

New and Inexperienced Cut Prices

They obtain credit for supplies and furnish active, even if not intelligent competition, for others in the same line. The only qualification most of them

ever had for success was a surplus amount of nerve and the knowledge that they needn't worry, as they had nothing to lose, for, whatever losses they had, would be paid by those who furnished the capital and the materials necessary to permit them to become erstwhile competitors.

Another type of unintelligent competitor is he who spends much time in endeavoring to corner the market and in making himself believe that his cost is lower on many materials; that his expenses are less than his competitors'; that his volume of business is greater, and that, therefore, he can undersell others. They consider that they are just a trifle smarter, if you please, than the other fellow. They should perish the thought, or investigate and clear their vision.

If need be, they should borrow their competitor's spectacles, and see their business and themselves as others see them, and thereafter be true to themselves.

This unintelligent competition is extremely difficult to contend with, on account of the underlying causes for it and the failure of those conducting their business to acquaint themselves with the facts. In his recent article in *The World's Work,* Mr. John D. Rockefeller writes:

"Then again, we have the type of man who really never knew all the facts about his own affairs. Many of the brightest kept their books in such a way that they did not actually know when they were making money on a certain operation and when they were losing. This unintelligent competition was a hard matter to contend with. Good old-fashioned common sense has always been a mighty rare commodity. When a

man's affairs are not going well, he hates to study the books and face the truth. From the first, the men who managed the Standard Oil Company kept their books intelligently as well as correctly. We knew how much we made, and where we gained or lost. At least, we tried not to deceive ourselves.

"My ideas of business are, no doubt, old-fashioned, but the fundamental principles do not change from generation to generation, and sometimes I think that our quick-witted American business men, whose spirit and energy are so splendid, do not always sufficiently study the real underlying foundations of business management.

"I have spoken of the necessity of being frank and honest with one's self about one's own affairs; many people assume that they can get away from the truth by avoiding thinking about it, but the natural law is inevitable, and the sooner it is recognized the better."

Lack of intelligence is surely displayed in the way that many men fail to realize that *no sale of goods of any character whatsoever is exempt from bearing its exact share of the cost of doing business.*

The salesman urging the making of a certain price for a given order artfully explains that it won't cost a cent more to get the order and handle it than if it were passed.

Such a salesman obstinately clings to the false notion that every cent secured above invoice cost on this particular order will be clear profit, and he tells the sales manager that it will be a clean and clear net gain of ten dollars if he takes the business, and the

He Hates to Study the Books and Face the Truth.—See page 60.

wonder of it all is that sometimes the sales manager swallows the bait. A short course in some near-by night school would do both a world of good and save a loss for the entire trade.

The unintelligent competitor does not know how to buy. He often over-buys, and then when stock does not sell in proportion, and his purse tells him that his capital is locked up in merchandise, which does not sell quickly enough, he sells the overstock at rummage sale prices without regard to cost or profit.

Imaginary Competition.

Imaginary competition falls under much the same head as misrepresentation of buyers, and salesmen often fall into the trap set by the wary buyer.

The buyer may say to the salesman in framing up a case of imaginary competition: "I do not care to mention any names, but one of your competitors was here just this week and named a price about 10% lower than you are quoting."

The facts of the case are, that the competitor may have been there, or he may not have been there at all, but the keen, unscrupulous buyer had learned by experience that to make a salesman shade his price, he must be made to believe that his competitors are doing so and so, and, therefore, the buyer goes to the trouble of setting up an imaginary competitor for the purpose of beating down the price.

CHAPTER V.

CAUSE AND EFFECT.

How can any reasonable business man imagine that he can secure all the business in his line? Competition has always existed and cannot be disposed of. The proportion of business cannot be materially altered by price cutting. If, by cut-throat methods, a house increases its sales it is only reasonable to expect that competitors will quickly adopt similar methods and that the balance of trade will be about equal after a short time.

Volume is Good; But Profits Alone Count

Too many business houses are mesmerized into the idea that the success of business depends only on the volume of business done. Imbued with this idea, they spend much time, energy and money in an unhealthy strife to take away this, that or the other customer from their competitor in business, who, in turn, will probably pursue the same foolish tactics to get even for the inroads made upon his customers, therefore, losing to each concern one or many profitable customers.

Far better were such concerns to apply themselves strictly to the attention of their own business by finding what their costs are, making selling prices based on these costs which are fair and equitable and

having their salesmen imbued with the idea of profits instead of volume.

Every time that a manufacturer, wholesaler, or salesman, knowingly or otherwise, undersells a competitor or cuts to meet him in price, he either establishes or aids and abets a practice that is widespread in its destructiveness to commercial interests in general.

Such methods are at once illegitimate and unbusinesslike, and therefore unqualifiedly wrong.

Even Cut Prices Will Not Get ALL the Business

Assuming, as an argument, that the adversary is powerful, and that the cut price plan is his regular method of securing business, has not experience shown that no one concern can get all the business; that the man at home can always get a sufficient volume, at reasonably higher prices, to tide him over; and that no cut-price house survives the legitimate one?

And, is it not a fact, that the cut-price dealer is usually defeated in the end, as a result of his own methods? For, having educated the trade to patronize him only by reason of his low prices, the time inevitably arrives when he has but few lines left—not sufficient to maintain him in business—and his disappearance from the arena of competition becomes but a matter of a short period.

A far better way to increase business is to pursue an enterprising aggressive policy, to have an undeviating one-price system, to treat all in a spirit of fairness, and to hold to a high standard of business methods. Surely, the conduct of such a house will impress old

and new customers alike most favorably and hold them loyal and not susceptible to the questionable temporary advantage of dealing with cut-price houses.

If it is true, that by no methods can a house gain a monopoly of the business in its line; if it is true that business is becoming more and more localized, why should it not be conceded that the proper course is to make every effort to negotiate a profit on the business in hand?

This cannot be done by cutting prices. It can be done by the "Live and Let Live" policy, which pays best in all things.

Lump Prices.

Lump prices offer a great temptation to cut fair prices and to conceal the cut in the lump figure.

Lump Prices Conceal Cuts

Where there are re-sale prices established by manufacturers of patented goods or where manufacturers of unpatented goods ask the trade to maintain a certain price, the quoting of lump prices does not permit anyone to see whether the prices on the restricted goods have been cut or not.

The lump price proposition is a bad one, and in the interests of fair profits it would be well to consider whether it is or is not a good one.

The Price Cutter a Pirate.

Think of the motives of the aggressive price cutter. Are they not debasing in that in selfish greed he endeavors to destroy business of the manufacturer

and his neighboring competitor by a policy based upon the incorrect assumption that merchandising is a sort of commercial warfare.

Low Motives of Price Cutter

He admits his inability to secure business by honorable means, and proceeds to break down the fabric of honest merchandising by buccaneering methods which destroy profits, breed distrust, foster prevarication, forfeit confidence and finally rob the consumer by debasing the quality of commodities upon which prices are cut, if not actually driving them from the market.

The price cutter does quite as much harm to a manufacturer as the vandal who deliberately tampers with an article so as to impair its usefulness in the eyes of the consumer. In the case of the price cutter, the effect of his baneful work is to disturb the relations of the manufacturers with his distributors. In planning a great "coup" our friend, the price cutter, selects the goods of known identity and quality, boasts of his "liberty" to do as he pleases in the matter of fixing selling prices, but he mistakes this privilege and opportunity to secure a living profit, for the license to drag in the dust the valuable reputation of the manufacturers of popular goods for his own selfish ends, seeking to fill his personal coffers regardless of whom it hurts.

Justice Holmes, of the Supreme Court, said recently:

"I cannot believe that in the long run the public will profit by this Court permitting knaves to cut reasonable prices for some ulterior purpose of their

own, and thus to impair, if not to destroy, the production and sale of articles which it is assumed to be desirable that the public should be able to get."

Price Cutter Harms Others for Selfish Gain

The price cutter seeks to attract trade on well-known goods for motives which, as before stated, are not commendable. In some cases he will sell popular manufacturers' brands at cut prices, or even down at cost or less, in order to sell other goods of unknown reputation at an excessive margin of profit, relying upon the success of this effort to bring up the average margin of profit.

Indeed, cases have been known where prices on standard brands of goods have been cut for the deliberate purpose of discrediting their sale, and alienating the loyalty and enthusiasm of other distributors in favor of some other goods in which the price cutter may have been interested.

In this connection, a case may be cited where a manufacturer of the old-fashioned open blade razors has encouraged dealers to cut the price on well-known, high-grade safety razors for the purpose of hurting their sale.

Recently, in one of our cities, a hatter displayed in his window hats of a popular make at extremely low prices. Investigation proved that the hats were genuine, but of unsaleable sizes, and old styles. The dealer, however, doubtless sold many nondescript goods through this crooked trick.

The very fact that price cutting tactics are resorted to so largely by the lowest class of operators, should be sufficient to deter good business men from

following this policy. The thought of adopting the personal habits and moral standard of such men is repulsive, yet many otherwise respectable men adopt their business morals which lead to conduct of reprehensible character.

A Low Standard of Business Morals

Men of price cutting propensities, following disreputable business practices, are largely avoided by the better class of manufacturers. The man who manœuvers to obtain an advantage in business by unfair methods is also no longer considered a desirable channel of distribution and is not looked upon as a good credit risk.

The price cutter's bland statement that the manufacturer who insists on the maintenance of prices, is standing in his own light, is no longer seriously taken. His determined importunity to secure goods without re-sale agreement and veiled threat to secure them in a round-about manner, is without effect, for there are far too many legitimate distributors to make it necessary for any manufacturer to risk the good reputation of his product by placing it in the hands of such cut price operators.

In short, the aggressive, persistent price cutter stands a discredited man in the mercantile community. He is a bad man. The opprobrious epithets which he receives are but his just due, and the sooner he realizes his true position, the better for him.

It is not necessary to go back so great a number of years to recall the time when there was a standard of manufactured products which was universally respected, but by the work of the price cutting manu-

facturer and dealer, the quality of many lines of goods has been changed; the standard has been lowered, and it might be pertinent to cite a few instances illustrating the manner in which the consumer has suffered in every line of goods.

Price cutting has resulted in "size faking." Articles marked 12 qt. and supposed to have that actual capacity, will hold but 10½ quarts. The goods supposed to be a yard wide would be found to measure about 33 inches. The goods which are marked 100 feet will measure about 92 feet.

Price Cutting Lowers Standard of Quality

In the wake of the price cutter one finds that weight faking has been resorted to in order to meet the situation.

Goods are made of lower weight material than should be used, and other subterfuges are resorted to in order to make cheaper goods to meet price conditions.

Deception in connection with the manufacture of silver-plated ware has been carried to the extreme. In order to meet the constant demands for lower prices to meet the quotations of price cutters, the manufacturers have stamped "Quadruple Plate" on ware which is not even triple-plated; they have marked goods 12 pwt. which are only about 8 pwt., and so on, ad infinitum.

There are numerous illustrations afforded in the furniture business, where manufacturers of cheap goods have imitated the style of the better makers, but have used inferior interior and exterior construction, veneers instead of solid wood, bronze plated hardware

instead of solid bronze, etc., and there are manufacturers of brass bedsteads who have kept the appearance of the better goods, but who substitute brass plating of a most inferior quality instead of the genuine article; manufacturers of textiles turn out a clever mercerized piece of cotton for silk, and in every line of manufacture numerous analogous cases may be found.

Many of these crimes may be laid at the door of the price cutter.

After a manufacturer has achieved success in the market, with an article of superior merit, we find trailing after him a horde of imitators who make price their chief argument, presenting an imitation product with which they hope to defeat the genuine article.

They are termed in the trade "Competitive Goods," but the consumer is the sufferer, in that he imagines he is buying a good article at a low price, but he is really buying an article made to sell at a price, and really not worth the price paid. Its manufacture has been made necessary because those engaged in the business have made the principal argument and have allowed the quality to suffer.

Goods Which Are Not Standard

It is a shame that the consumer must be the sufferer, but many price cutters are successful in deceiving him, leading him to believe that he is buying the genuine article or an article of equal quality at a very low price, when, as a matter of fact, he is only buying a rank imitation at a price far in excess of what it is worth.

These price cutters imitate the genuine articles

in every point except the quality. The name has often been copied. If the name of the genuine is "Victor," they have been known to call it "Hector" and disfigure the first two letters so as to further carry out the deception. If they imitate the "Yale" lock they call it "Yawl" until the court steps in and gives them a severe trouncing.

Greater Trade Honesty

An English trade journal states that because of false trade descriptions, the British Brush Manufacturers' Association has decreed that each firm or member is to guarantee that the use of any of the various trade descriptions in connection with the product sold shall mean that the brush or broom consists of the material mentioned in the description. For instance, "bristles" must mean the hairs of a hog, pig, or boar; "hair" the hairs of an animal, but not whalebone or feathers; "badger" or the name of any other animal means the hairs of the animal named. This new understanding is welcomed as an important step toward purification of trade and greater commercial honesty.

Says Mr. R. T. Crane, President of Crane Company, Chicago, manufacturers and jobbers of steam and plumbing supplies, in a recent issue of their house organ, *The Valve World*:

"This curse of competition naturally manifests itself in the quality of the product, illustrated forcefully in connection with plumbing goods. Probably the least inexcusable thing in this connection is the slighting of the nickel plating. How often we see this to be the case.

"What is there that looks meaner in a building than to see the plating worn off the bath room fixtures? When we realize the great expense occasioned to correct this fault, and the small cost of a good job in the first place, we can better realize how contemptible the manufacturer is who will produce such goods, and how equally mean and contemptible is the jobber who encourages the making of such goods."

There is another paragraph by Mr. Crane well worth reading under the head of "Competition in Plumbing":

"We know of nothing more stupid in the plumbing line than to cut down the handles of wash basin cocks so short, in order to cheapen them, as to make them exceedingly difficult to operate. We have known of cases where the handle has been made so short that it was almost impossible to open or close the faucet, and this, all for the sake of saving a penny in the cost of the article. This is one example of the many unpardonable evils which the curse of competition has produced."

The Effect of Price Cutting on the Public

The conditions created by price cutting must be met. Raw materials must be bought more cheaply. Closer bargains must be driven wherever possible. All allied industries are called upon to revise costs to meet the demand for low prices.

The workers, men and women, are ever handy victims for economy's sake.

Reduction and reduction is made, with sickening effect, until the struggle can no longer be endured, and they are forced to seek employment in other lines.

True, the cost of production is lessened, meeting for a time the demands of the price cutter.

Then there is the sorry picture of a business establishment, be it factory, mill or warehouse, where price cutting has robbed the business of its profits.

Naturally the equipment is poor. A losing venture has to do the best it can with the worst facilities. Safety devices are unknown. There is an entire absence of any devices to protect workers from injury or death from dangerous machinery, belting and elevator shafts. Here the price cutter is the indirect, but none the less responsible, cause of an appalling number of deaths and serious injuries, throwing on society the burden of supporting countless maimed or crippled workers, widows, fatherless and orphans.

Dealers Driven Out of Business

Cut prices combined with dishonest competition, have driven thousands of merchants out of business, compelling them and their children to seek other means of making their livelihood. This reduction in social condition and welfare is most unfortunate from every standpoint and does not augur well.

Time after time the public has had goods foisted upon it which were utterly worthless. After a while, the worm has turned and both good and bad brands of the goods have been turned down. The quality had gone down to a point where it was worthless; the public received the impression that the commodity itself was no good and refused to consider it further.

This has thrown the manufacturers of the goods out of business. It has made it necessary for the

workers in such an industry to seek employment elsewhere in lines in which they are not skilled, at a considerably lower rate of wages.

More and more the chief vocations come under the baneful effect of unfair competition, so that one may not maintain one's self in them at all unless one feels at liberty to do as his rivals are permitted to do.

The Meanest Man Sets the Pace

Those in the same line must to a considerable extent move in lockstep, and the pace is set by the meanest man who is allowed to continue in the business.

There are men occupying positions of superintendence who are wholly unfit. Among them are those who are dishonest, ignorant, malicious and crooked; those who prefer methods of trickery and chicanery to those of honorable competition.

A ring must be put in the snout of these greedy strugglers for "all the business at any old price," and when properly enlightened and aroused, it will be done, and there will then be a cessation of these forces which are degrading life and lowering the social condition of the people.

CHAPTER VI.

SALESMEN.

The salesman without experience offers a paramount difficulty in the way of distributing merchandise at a profit.

Perhaps a reason for the presence of such a large percentage of inexperienced salesmen in the field is the fact that mistaken ideas of economy prevail in connection with the employment of these salesmen.

Too Easy to Secure Position as Salesman

For example—a case like this is very probable and has accounted for many men who have tried the road at the houses' expense. A friend of a salesman for B. & Co. learned that A. & Co. had a vacancy for a traveler. He had a smattering knowledge of the business and could put up a fair bluff. He had been making $6.00 per week and was ambitious. He applied, expressed confidence in his ability to sell $50,000 per annum, and to his surprise secured the position.

Errors Common to Inexperienced Salesmen

Did he sell it? No! But he lost his job trying to, and jeopardized the jobs of several other much better men. He "lived" just eight months, but he cost the houses covering that territory, including the one he misrepresented, at least $5,000. He "made a mistake" in naming a price on a certain line of goods to a smart buyer—a little matter of

10%, and, like the commotion caused by throwing a stone into a great lake, its force was felt from shore to shore. His house had some "old contract" goods of this line, and let it pass.

Several other travelers were shown the price on A. & Co.'s invoice to the customer, and reported the matter to their several houses. Each of them had some "old contract" goods of this line also, and each salesman was authorized to use his judgment and allow the 10% extra *where necessary.* Of course, the salesman whose customers seem to be natural allies, gives the 10% broadcast, as is generally the case where a lower price is made conditioned on meeting some certain specified competition. It is wonderful how prevalent and general that particular competition suddenly becomes.

Demoralizing Effect of Poor Salesmanship

Our friend of the illustration was an amiable fellow and preferred to do right, but like those of that class he so well typified, he was ignorant, and his costly errors were born of ignorance and not fathered by malice, yet they were none the less costly for that.

Far better would it be for the cause of fair profits and the expense account if greater care were exercised in placing men on the road.

Experience shows that out of every ten men placed on the road to sell goods, but one is sufficiently successful as to justify his continuance, and but one out of twenty experiments is a profitable man.

In fact, many houses having fifteen or twenty salesmen claim that only four or five show a good profit.

By the way of a remedy for this cankerous evil, why not require a careful, painstaking examination of the fitness of each applicant for the traveler's position?

An Examination Suggested for Applicants for Position as Salesmen

Possibly what the trade chiefly desires is a thorough knowledge of the business, a good record as a man of stability, strong character and backbone, ENERGY, enthusiasm, good health and morals, honesty, sobriety and a man who has not been known as a "bear on the market" with other houses. If he is a "price" competitor and claims he could sell goods "if he only had the price," do not take him on, because prices have never been known to be low enough yet to suit a man of his type.

Economies Effected by Good Salesmanship

Quality of the selling force in this respect excels quantity every time, and if quality is insisted upon by a thorough examination and weeding out process, we would see:

1st. A great saving in the expense account.

2nd. A better profit on all goods sold and a better quality of goods sold.

3rd. A larger mail order trade.

4th. Instead of orders for ¼ and ½ dozen of each article purchased, the orders would be for 1 dozen, ¼ gross and ½ gross.

5th. A saving of boxing and packing expense.

6th. A saving of cartage expense.

7th. A better salary for the salesman.

The Salesman Without Sense or Good Judgment.

The salesman without good judgment is a development of the salesman without experience, in that he has not learned to benefit by his experience.

It is astounding to meet so many salesmen (so-called through courtesy) who are almost innocent of any knowledge of the business in which they are engaged; who are sometimes deficient in rudimentary business methods and to whom salesmanship is an unknown art. Possibly but 50% of the whole are first-class, competent salesmen, truly deserving of the name.

A dangerous class of salesmen are those who should make their living in other pursuits.

They may be well fitted to shoe horses, paint barns or even to juggle freight at a station, but to sell goods, NEVER.

To sell goods at the prices at which they are given, they know as little about as does a rat about astronomy.

Poor Salesmen Dangerous.

To them, selling goods is no art at all, for a dollar or two above invoice cost is all "velvet," money that comes as easy as a check from home.

Many salesmen, again, are temperamentally weak in asking a price which bears a profit, and are responsible for the commencement of demoralization in many instances.

Those who lack confidence in their ability to sell at an equal or better price than their competitors,

seek the line of least resistance, viz., a concession in price, to effect their sales.

Persistence in this course leads to their final elimination from the selling ranks, but before this takes place such men may occupy positions with many houses, unknowingly being permitted to ply their dangerous course for some time, costing their hopeful employers more during the year than is lost in bad debts.

It must be remembered that salesmen only hear complaint of the prices which are said to be high, while the low prices pass without criticism or comment.

The salesmen of the present time, as a rule, should possess large abilities. A great many of them lack patience and that nerve which is required when selling a bill of goods, to pass by a few items where the price is too low.

Little Cuts Count

One who is inclined and allowed to cut a few prices occasionally, will, without noticing it, cut his prices to the amount of $3.00 per day, which at the end of the year reduces his showing in profits about $900.00. Have you never thought about it that way?

A little careful consideration before a cut is made would convince the sales manager that the majority of these cuts are unnecessary and besides, are not appreciated by the trade or the consumer.

Salesmen can help to increase profits by not overestimating the knowledge the customer has of values. Because some customer seems well posted on staple

goods, perhaps the salesman will cut the price of slow selling specialties unnecessarily low, if permitted to do so by the sales manager.

This is an error in judgment which will soon be remedied by an appreciation on the part of the salesman that every such error cuts his profit account down and that if it does not have a direct effect on his salary at once, the accumulation of such errors must make him less valuable to his house and will be reflected in his salary.

A great deal of profit is thrown away by a salesman not being familiar enough with his line of goods; but a salesman should know not only his own line THOROUGHLY, but also sufficient of his competitor's line to help him handle conditions. A salesman very often has a first-class article to sell at a certain price, and it is cheap at that price, but his competitor, who has an inferior article somewhat similar, has a lower price, and the salesman not knowing his own line or that of his competitor, cuts the price of the first-class article to compete with the inferior articles, and thus throws away some good legitimate profit that his house is entitled to. He should study the line as much as possible and so demonstrate the quality of the product as to put the question of price in the background.

Knowing the Line

CHAPTER VII.

BUYERS.

There is a class of buyers on all territories who enjoy the distinction of being called "close buyers."

"Big" or "Close" Buyers

They are generally a terror to a great many salesmen, some of them even have such a reputation in the territory that you will meet salesmen who say they would like to sell so and so goods, EVEN IF THEY HAD TO SELL THE GOODS BELOW COST. It is safe to say that it is with the so-called close buyers the foolish salesman loses most of his profit. These close buyers are not as dangerous as they look, and the great majority of them are not even a good match for an ordinary "chump" salesman. If the salesman is on his guard, he will quite frequently be surprised to find that some of the so-reputed close buyers are quite ignorant both as regards goods and prices. If one should divide the cause of sacrificing profits between these close buyers and the salesmen, surely the salesmen would come in the big end of it, for it is quite often the case that all the close buyer has to do is to push the button and the salesman will do the rest and throw himself away, profit and all.

The big buyer is a good customer just as long as there is a fair profit on his purchases, but as soon

as it becomes necessary for you to give him half of your regular margin, he ceases to be desirable.

Misrepresentation of Buyers.

The buyer, in his desire to obtain the lowest possible price and the greatest concessions, resorts to every known subterfuge to effect his purpose.

That this is not a new condition, but even confronted Solomon when he reared that wonderful temple, is shown by the following quotation from Proverbs xx: 14:

"*It is naught, it is naught, saith the buyer; but when he is gone his way, then he boasteth.*"

In nine cases out of ten, when a buyer questions prices, he is merely testing the salesman's nerve.

If he should yield just once, and the house be lax enough to permit it, he is "done for" on price-getting with that buyer as he travels on that territory.

A shrug of the shoulders, a remark which would lead to the inference that the price quoted is too high, or the lie direct—leads to price-cutting not warranted by the true facts, but demoralizing in its influence.

Buyer Naturally Misrepresents

The buyer or purchasing agent often feels that he must maintain his position by virtue of his ability to bear down prices. He employs methods of cunning which go far to mislead the salesman and to convey the impression that his prices are grossly excessive.

The effect of such statements varies, but, as merchants, you are, no doubt, aware that the proportion of salesmen in the employ of houses handling the

various lines, who can be called really first-class men in their profession, is less than fifty (50%) per cent. of the whole; and that, even the first-class man is frequently forced to make a price entirely contrary to his own judgment and wishes, by the actions of others who are lacking in the essentials of salesmanship.

The average salesman does not have sufficient backbone to sustain confidence in himself or his prices, and when the buyer makes a remark such as, "You are not in it; better go home and get posted," he should have the backbone to "spruce up," stick to his price and refrain from cutting.

Then when another point of attack is chosen, the buyer will often assume a friendly attitude, saying, "Sorry, Bill, but your figures are too high again; I would like to give you the business, but your people are always about 10 per cent. higher than the other fellow."

Here the salesman sees that he has the good will of the buyer and the offer of the business. Pretty tempting, too. He recognizes that the only obstacle between him and the coveted order is the refusal of his house to meet prices.

There are also constantly occurring the cases where the buyer takes advantage of an error in billing or shipping goods to make out a "prima facie" case of lower prices being quoted. Then there is the run of cases where the easy sales manager passes orders secured at cut prices by new salesmen so as not to discourage the inexperienced man and so as to avoid going back on his contract with the customer.

The salesman is human, and as no other representative of the house is present to talk matters over, and he is out to get business, he is ready to collapse when the buyer adopts such tactics as these. He at once gets a "crimp" in his backbone and seeks relief by cutting prices, unless he knows that his sales manager is not the man to countenance such a practice. If he has a sales manager who is strong on the price question, insistent upon obtaining a proper schedule of prices or passing the business, he will stand his ground and either land the order through the power of salesmanship and the virtue of his goods, or he will pass the business, leaving the crafty buyer to try his wiles on some other weaker brother who has not the backing of such an efficient sales manager. Then on the next trip does it not often happen that the order has not been placed, and the salesman has the satisfaction of securing it at the regular price and of knowing that his undeviating one-price policy has won out?

The Effect of Misrepresentation on the Salesman

The remedy for such misrepresentation, obstructing as it does the smooth operation of a price maintenance system, is organization among the sellers and cooperation of the manufacturers.

Through this means of communication mutual confidence is inspired between the sellers locally and between those in different sections, making the investigation of reports of cut prices easy and satisfactory.

Reports of Cut Prices Should Be Investigated

The practice of rigidly investigating reports of cut prices and ferreting

out the facts to their source has resulted beneficially, and where it is followed, the incorrect reports of salesmen and customers no longer stand by default.

Mere suspicions and veiled insinuations cannot influence prices when a salesman knows that the buyer's statements will be accepted as correct only after a rigid investigation. Positive proof showing cold facts and undeniable evidence will be demanded before they are submitted to the sales manager as a matter of information, for he, better than any one else, is in a position to know whether any change should be made.

Get the True Facts.

It might throw just a little light on the subject to define what a fact really is.

A fact is that which really exists; it is a statement which is absolutely true and which will be fully confirmed by close investigation.

Pride (perhaps mistaken) enters into the question. Every one wants to feel that his prices are as good as any or all of his competitors, but the trouble is, that he seldom knows to a certainty what such competitors' prices are, and is prone to take for granted statements that are, in the main, garbled and ofttimes very, very wide of the truth.

In the salesman's case, he often takes the buyer's statement or inference as a fact, and he may in some way be led to believe that a certain competitor is quoting 10% lower.

Years of investigation have revealed the fact that

an average of over 90% of the reports of cut prices are found to be incorrect and inaccurate, and to have no foundation in fact.

Over 90 Per Cent of Reports of Cut Prices Incorrect

This is a big average! Just think of it—90%!! Of course, many of the statements of the buyers are not bald, bare-faced, copper riveted lies, but they are clever little exaggerations, over statements, and statements from which inferences may be drawn.

The buyer is paid to get the goods at the lowest possible figure. He may be a fine man, as honest as the day is long, but the best of men and customers are apt to make the most of a statement so long as it serves their ends and gets their goods cheaper for them.

Most of us luckily are inclined toward optimism, and some of us do not seem to remember that the inclination of mankind is to exaggerate if only a trifle.

Then when the report of a cut price is made to the sales manager and he looks incredulous, we should not get "sore" at him, because he has heard the old, old story so many times, and too often he has proven conclusively that the report of the cut price which the salesman considered a fact was not a *fact.*

Perhaps the fact was, that the price was an *old one* which had been withdrawn; or that he found the price was on a job lot of goods. Maybe he found that it was "Bargain Day" with some other dealer or dealers who were heavily overstocked, and that the price was for a certain large quantity of goods, being surrounded by all kinds of special conditions. Or, it may have been that the price was made

Cut Prices May Be Withdrawn

by a "green-horn" salesman and that the order was filled merely to keep good faith with the customer, but *immediately withdrawn by the house.*

In cases like these, it *was* a *fact* that the prices WERE made, but is it not pertinent to ascertain the other elements in connection with the circumstances under which the prices were named so that profits should not be needlessly sacrificed?

Investigate closely as to the merchant's sincerity in making the statement in case of a report of lower price. There should be considered such points as date of order, quality, quantity on which price was made, freights and deliveries, fluctuations in prices, closing out prices, damaged or second-hand goods, etc., etc.

The purport of this little talk is, to get ALL THE FACTS. Not only the part of the story used by the customer in order to beat down the price, but get the whole story, and you will probably find that your house is selling goods on as low a basis as any other house, and that the customer is simply trying to display his ability as a buyer to unsettle the market.

It should be borne in mind that these customers tell the salesman of other houses, the same class of "fish stories" as they tell you.

The other salesmen on the road probably think that you are about as big a cutter as you think they are.

Each Man Blames the Other for Cutting

The remedy for this, is a little stronger belief in the honesty of the purpose of your competitors, and a far closer investigation into the statements of the buyers.

It is a sure thing that if we accept all such statements as each salesman makes to his house of certain prices, that the prices will get lower and lower and that a beautiful crimson banner with nice white letters, "Sheriff's Sale This Day" on it will be hanging out on the door some fine morning.

The fact is repeated that salesmanship *means* SELLING GOODS AT A PROFIT.

Selling goods at a profit is impossible if we are gullible and believe all that every buyer tells us.

Do not beg your house for permission to cut the price, but either sell the goods at your own price, or do not believe the buyer's statements unless he can back it up with satisfactory evidence. Also, just because you hear the same report in three or four different places, it doesn't follow that it is true, but find out all about it—then you will know.

It is easy for the salesman to believe the buyer when he says, "Your prices are not right, but I would like to give you the business, were it not for the fact that I think I can do better." Or, perhaps he will say, "I can do better." But remember, nine times out of ten he cannot, and if you give in he has the laugh on you.

It probably has been the experience of many salesmen to be in a buyer's office when he is telephoning to one of his sources of supply and trying to get them to give him a lower price.

The Foxy Buyer

He puts up the best kind of a story he can, and when he has them coming his way, he winks his eye at you and says, "I have put 'one over on them,' all right," and then the wonder of it all is, that so many times you

permit him to "put one over on you" about ten minutes later.

Do not get scared; do not stampede. Remember there are only two of you—the buyer and yourself—and if he makes any statement which sounds somewhat fishy, investigate it.

It has been said that if a theatre gets on fire with 2,000 people in it, all stampede for the door, but if only three or four people are there, they look for the fire and try to put it out.

You are in the same position. There are but two of you. If there are claims of lower prices made by the buyer, do not stampede—just look around and find out whether it is a true fact or a creation of an overworked, imaginative brain.

An unfortunate feature in connection with the investigation of reports of cut prices is the failure of the party in the accused house who is approached in the matter to keep the fact of the report confidential.

Investigation of Cut Prices Must Be Kept Confidential

It is unwise to allow the report to get back to the customer, but too often this is the case. This results in a probable loss of business to the house which has been trying to maintain the price and which makes the report, possibly risking the loss of $2,000 or $3,000 of business per annum for a report of a cut price on $20.00 worth.

If the one consulted were to investigate with proper caution and with a correct regard for the interests of the trade, this method would be far safer than it is now.

Lying.

As it has been proved true that over 90 per cent. of reports of cut prices are not founded on fact, is it not time that this disgusting practice of misrepresentation should stop?

What are the consequences? Have not lies been told without advantage? Have not men bartered their manhood for naught? Have the parties reaped any advantage that they would not have obtained by adhering to the straightforward truth?

The consequences are, that these men have needlessly added their influence to diminish confidence between man and man. They have sown the seeds of deception and dishonesty, which may grow up to be rank weeds and poison themselves. They have given additional cause for the contempt of honorable men who abhor such practices.

Misrepresentation Futile and Wrong

Is lying necessary in buying or selling? This question needs but a short answer; if it is, then buying and selling are sinful, which is absurd. Many of the assertions in bargaining are mere badinage; they are the substitutes for want of something better to say, and are generally an indication of poverty of wit.

Many of the falsehoods in trade are about irrelevant matters, not pertinent to the bargain.

Cost is a matter never pertinent to a sale. It is not to be presumed that a man who is in his right mind is selling at cost, and what he paid for his goods is an interesting inquiry of no practical importance.

Lying seems to be a natural defect in some men,

and must be viewed in the same light as the well-known natural propensity for stealing. In others it is a confirmed habit; they have lied so long and so often that it has become a second nature to them. Loquacious men cannot always command the time necessary to stop and recollect the truth.

Now then, is it not evident that in no instance is the ability to lie a qualification of a good buyer or an expert salesman, and is it not time to abandon this most unhealthy practice?

It is not to be expected that any ideal conditions will soon exist, but observation immediately reveals the fact that a great improvement has taken place in this respect. Business men from the standpoint of policy, irrespective of morals, have found misrepresentation to be inadvisable and unprofitable.

CHAPTER VIII.

LEADERS.

Prices which are too low for profit are often made as a leader or "bait" to secure the trade of some one or a number of customers. A "leader" is sometimes defined as a piece of goods placed on sale at a very low price to attract the attention of the trade and impress upon it the idea that the establishment in question has very low prices in general.

Articles serve best as leaders which are recognized staples or widely advertised goods which are in heavy demand. Advertised goods, well known to the trade, and whose identity is thoroughly established, rapidly become the "footballs" of trade, unless a strong effort is made by the manufacturers to control the price at which such goods shall be sold.

There is no direct profit to the trade in "leaders," since they must be sold at or near cost, and the articles which can readily be identified by the trade are most largely used because the identity gives force to the price difference.

If there were not identity, the seller who was securing a fair price would probably claim that the difference in quality accounted for the difference in price.

Widely Known Goods Cut Most

Consequently, the heavy selling staples and well-known and widely-advertised goods, which carry trade-marks everywhere known, serve more or less as leaders; that is to say, many of them do not yield satisfactory profits because of the directness of competition with respect to them.

Said a representative of one of the largest retail establishments in the United States in discussing the question of price cutting:

"The dealer who selects certain trade-mark articles of large demand and places them on sale for a day or two each month, at a price on which there is no profit, and at times actual loss, has three reasons for his action:

"First. To deceive the public as to his prices on other goods not so well known.

"Second. To attempt to cast reflection upon the prices of a competitor by taking a false position himself.

"Third. To damage the market value of the trade-marked article.

An Interesting Analogy

"If there is a better reason for such action, with an article that cannot be bought from the manufacturer at less than its regular price at any time, I would like to know it. If reason number one is analyzed to its bottom, it is as damaging to the public as it would be to sell to the Government ten cases of goods, in one case of which fair weights and measures were given, and a deal made with the inspector to examine only that one case, the other nine cases of goods

being measured and weighed at thirty inches to the yard, or twelve ounces to the pound.

"In the first case the customer is able to measure the value of the trade-marked article, while being led to purchase an unknown number of other articles which are not so measured, with the belief that they are purchased on the same low basis of profit. Thus the purchaser is just as falsely misled as though an inspector was bribed to measure ten cases of merchandise upon the exaggerated basis of the case specially prepared for his examination.

"The time will undoubtedly come, if honesty in business policy is to prevail, when it will be as much against the law to falsely exploit a standard article at a loss, as it is to sell goods at a short pound, or a short yard. It would seem that the time will come when it will be against the law for any storekeeper to maliciously use the manufacturer's product in a way that not only deceives the public, but does damage to the honest storekeeper, as well as the manufacturer of the article.

"Certainly that public must be very ignorant which does not realize that when one line of goods is sold below cost another must be sold proportionately above it to make up the deficit."

The "bait" or leader business is what plays the devil with prices and profits. I think there is nothing to be gained by tempting a customer with a bait to buy an article he don't need just to start an order. There is always a reaction that is bad. If you overcharge him on other goods, he will find you out surely.

I don't think it pays to start an order with a bait.

A customer generally finds it out. The next salesman finds it out from him and makes the price equal or better than yours. Soon the price spreads and renders profitless scores of items.

Try only straight business at regular honest prices. It will prove to be a winner in the end.

Too Many Leaders Spoil Profits

By the time all the special prices for a special purpose, or for no purpose at all, are given the trade, they embrace all the leading goods. The trade is then firmly established on a basis of cut prices on all leading lines and the jobber finds himself in the pleasant (?) but unprofitable business of swapping dollars for the advancement of the interests of manufacturers and retailers and consumers.

It is certain that a good salesman can sell goods without the aid of leaders, and can, by exercising patience and energy, break into the most exclusive territory, simply with his ability as a salesman and the merit of the goods which his house sells to recommend him. Goods quoted below the market will sell themselves, and a "non compos mentis" can book the orders. A good salesman should never ask for a lower price than that of his competitors, but with honor he should be willing to fight the fight for business in the open field, and if, at the end of the year, he finds that his competitor has sold more goods than he has in the same territory, he should be willing to recognize his superior ability as a salesman and should admit that he should receive a greater salary. But, on the other hand, if his house is continually permitting him to offer bait to the trade, which he is

either unable or unwilling to meet, and in this way he secures a greater amount of business, none can recognize him as a superior salesman, nor can his house be respected as an honorable competitor, for they have simply robbed others of legitimate profits, which should have been theirs, and by so doing have not increased their own profits. It would be well if business men would look to the "prize ring" for an object lesson, and whenever one of their number is found guilty of striking below the belt, he should be made to suffer the penalty. If the salesman is at fault, discharge him, but if the fault is with the jobber discipline him.

In the retail business the practice of offering leaders is often followed, although many of the better classes of stores do not indulge in it.

For instance, a Congressman recently told of a department store in Washington that advertised a book, which at that moment was extremely popular, and that was advertised at a cut price, considerably lower than the current price at which it was being sold, and there was a run on that department of that store for that book. They had twelve copies of it, and they sold them out at once, of course. Then they said, "There has been such a rush for it we cannot supply it. We will have in another supply in ten days or so."

Now the book could be found at the publishers in Washington, and the people came in and said, "What is the price of this particular book?" "So much." "I can buy it at such and such a department store at so much less." "We cannot sell it for that."

This obviously shows that the cut price stores and business establishments following the practice of making leaders of certain goods, are not doing the public a service, but instead they are deceiving them grossly and using a decoy or bait to draw them into their establishments in the anticipation that they will spend money there for other goods, many of which will probably be sold at prices far greater than they could be had for elsewhere.

A Bad Practice.

The Cutter When a Member of the Firm

It is a most reprehensible thing for a member of the firm to go on the road and sell goods at less than he instructs his men to do. When he gets home he is sometimes afraid to put the price on his order, but prices it secretly. This makes customers lose confidence in the regular salesman and the prices he quotes, and gives the salesman just cause for complaint.

If the member of the firm cannot maintain prices, he should stay at home and not annoy and discourage those who are able to make a profit.

CHAPTER IX.

SOURCES OF LOSS.

It is, of course, impossible to draw a line around any certain territory and say that that territory belongs to any certain city and that merchants from other cities should not solicit business there.

It seems, however, that it is quite probable that merchants from other cities, having arrangements in those cities, which permit them to make a fair margin of profit, should not come into another territory foreign to them and make prices which are lower than they would make at home.

Distant Territory Unprofitable

Time and time again such a course has been pursued and retaliation has been undertaken by the offended merchant with results which are easy to be seen and sad to relate.

Further, jobbers selling out of their natural territory must usually allow freight which, in many cases, absorbs a large portion of the net profit otherwise made.

Several States, notably Iowa, Minnesota and Nebraska, have made it unlawful to sell goods at a lower price in one locality than in another. This, of course, relates largely to commodities sold by large trusts, where the object of such a practice has been to demoralize the business of a competitor. However,

some large manufacturers and wholesalers of merchandise would greatly assist in maintaining fair market conditions if they would resist the temptation to dump their surplus stock in territory foreign to them.

There are, unfortunately, some wholesalers who feel that they are so large and important that the entire country is their natural territory. They have, perhaps, in years gone by, sold their merchandise throughout the United States, but the country has grown and developed to such a degree that business is becoming localized to a greater and greater extent. The jobber today who insists on doing business in remote territory generally does it at a sacrifice of profit for himself and for those in the territory which he endeavors to invade.

In many cases the jobber attempts to hold such trade in order to maintain his former volume of business and to maintain his prestige with the manufacturer. He does not stop to think that net profits count more than volume of sales and that his prestige with the manufacturer suffers severely with the natural complaint of cut prices made by competitors.

There is, in many lines of business, a feeling that certain classes of staples must necessarily be sold at cost or at a price as near cost as possible.

Selling Staples at Cost

All goods, staple or otherwise, must bear their percentage of the cost of doing business, and to imagine that merely because certain goods are staple and sell with less effort or in greater volume than other goods they

can be sold without respect to cost of handling, is a fallacy which can only be exploded by a gradual campaign of education.

We know of staple items now in the profit bearing class which have been in the rut for twenty years, proving that unprofitable conditions on staple goods can and have been overcome.

Discount Sheets.

Many houses print Discount Sheets which are distributed broadcast and quote either discounts or net prices on goods.

Some of these sheets quote a general average price and do not do any particular harm. Other sheets quote lower prices which are unremunerative; and still other sheets quote higher prices than the houses are willing to sell for and are misleading, certainly doing no good for the house.

Discount Sheet Undesirable

The broadcast distribution of Discount Sheets is a most expensive proposition to the house indulging in the practice, and is felt to be demoralizing to profits in general and to be an unnecessary and unwarranted expense, as well as constituting a demoralizing factor in connection with fair prices.

A leading wholesaler, speaking on the discount sheet question sometime since, said:

"For a number of years we published a complete discount sheet, and personally, I thought it one of our best advertisements, although exceedingly costly. I believe we were the first firm in our city who ever at-

tempted to publish a sheet of this character, and I thought it was a good investment, although many of our salesmen objected to it strenuously.

"In distributing our discount sheets, of course, salesmen employed by other competing houses, promptly secured copies of it, and it was the easiest thing in the world for them, knowing what our prices were, to slightly shade them in some instances and take business away from us.

"A number of our competitors here finally began publishing sheets at irregular intervals, and the result of the whole thing was, that we found upon investigation, that we were simply educating our customers to ask for, and insist upon having, lower prices than those printed in the discount sheets.

"In the regularly published sheet, you cannot, of course, in all cases show extreme prices, and in many instances when the market advances, if you have published prices in the hands of your customers, they will insist upon having the lowest prices shown in your sheet without regard to any advance in your market costs. Of course, by possibly close attention at some expense, the market advances could be properly handled, but nevertheless it has always been found to form a constant source of annoyance.

"We continued the publication of our discount sheets for several years, but early in 1910, at the urgent request of our salesmen, we decided after discussing the situation with other jobbers here, to discontinue its publication.

"To the writer's surprise, we not only did not lose any business by discontinuing the sheet, but really

placed ourselves in a position to make a better profit, as without the discount sheet our customers have no line on prices, and we are not asked to make as many concessions or corrections in our invoices as we had been previously.

"The publication of these discount sheets cost us about $600 per month, without including the cost of a great deal of time and labor necessary to keep the sheets constantly corrected. We are, therefore, saving that amount of money, as well as labor, and our profits are not only as good but better than they were when we published sheets, and were compelled to invoice the materials at the prices shown in these sheets.

"Much as I was in favor of the plan formerly, my experience has led me now to condemn the idea of publishing the monthly or quarterly sheets."

CHAPTER X.

OVERPRODUCTION.

The great strides made in the manufacture of all commodities have been responsible in a measure for low prices.

Reports of the Department of Commerce and Labor based on accurate statistics show that improvements in machinery and processes of manufacture, during the past fifty years, have made possible a reduction of an average saving of time of 75% in the making of goods.

Moreover, in addition to this there has been an increase in the number of factories entirely out of proportion to the demand for the goods.

Then, too, many factories have been considerably enlarged in boom times and operation on half time to-day, for instance, would result in as large an output to-day as operation on full time five years ago.

Demoralization in prices is often caused by overproduction. In boom periods, manufacturers have often increased their facilities and output, and in years of less active business, this has placed them in a position where they can make a full year's supply in six months' time.

It is true that no *one* manufacturer has capacity

to produce a quantity sufficient to satisfy the entire demand of the country, but every manufacturer, or nearly every one, believes that his product is equal to, or superior to that of every other manufacturer. He, owing to the fact that he has his investment and can run his factory on full time at a less cost, insists upon running the factory full. Then, of course, he endeavors to obtain a market for his goods, and, too often the trade, without considering the effect such action will have, will place their orders with that manufacturer, provided he will shade the price.

Overproduction a Serious Menace

The manufacturer does not stop to think of the effect of such cut price, and the merchant is only too willing to get that cut price and uses it in making up his selling schedule, ignoring the fact that he is destroying his own market and is lowering the scale of values over the entire country, as such prices cannot be confined to any local territory but become national in character.

It is most difficult to find a remedy for this crime of over-production. If the jobber would decline to place business even at a lower price with the over-producing manufacturer, and would give it to the manufacturer who is running his business on a sane basis and trying to assist the trade in maintaining a fair market, it would go far to better conditions. Or, if the ideal condition of reducing over-production on the part of the manufacturers could be brought about by effecting co-operation among them and inducing them to produce an equal proportion,

A Remedy Difficult

either in increase or decrease of the demand, it would remedy the evil.

The manufacturer should also see that the penalty for over-production will fall upon him in the way of a lower scale of prices, yet each manufacturer believes that he is in a position to throw this burden upon the other manufacturers (his competitors) because of the superior quality of his product or his better facilities for manufacturing and producing at a lower cost.

Assimilation of this increased output, out of proportion to the regular demand, is impossible and it is easy to forecast the result of conditions which enable manufacturers in so many lines of business to turn out a supply for an entire year in six months' time.

It seems that there are but two ways out—one, to reduce production to a point nearer the actual consumption and make a fair profit on the goods sold—the other, to endure unprofitable conditions until such time as the demand catches up to the supply.

CHAPTER XI.

OVER STOCK.

Among other causes of price cutting is an overloaded market or an unexpected dull period, which places the trade in a very trying position and offers great temptation to begin cutting prices in the hope of moving the goods quickly for cash. This is often a result of poor buying or bad guessing with consequent necessity for making prices to move surplus stock, without regard to what a fair price should be.

One of the economic axioms generally believed as needing no demonstration is, that it is necessary to adjust prices to meet changed conditions of demand.

Experience has proven that this does not hold true in many lines of merchandising and that price reductions are powerless to stimulate sales during times of depression.

Old Law of Supply and Demand

Under such conditions, there is usually fierce competition and heavy price cutting, which does not, however, stimulate demand, but merely operates to divide a limited amount of business among rival bidders, while at the same time increasing the uncertainty and hesitancy of the buyer, who at such times is prone to hold off in the hope of further concessions.

It is recognized as an invariable characteristic of the market during dull periods that demand is half dead, and that price cutting, no matter how drastic, is powerless for its resuscitation.

Quantity Prices.

Quantity prices have in the past been resorted to by some manufacturers in an effort to properly market their product.

Consideration of Quantity Price Plan

It is true, that *fundamentally* prices are governed by the quantity taken by the buyer, and the very question of being jobbers or wholesalers carries with it the idea that the parties so designated are entitled to a differential or special prices on account of the quantity taken.

It has the precedence of history behind it and some arguments in favor of it, but does it not seem that the American market, comprising as it does, the largest economically high-grade area under one political control, with uniform trade customs, laws and language, should not be governed by such a primitive method?

Manufacturers claim that they can handle large quantities at less expense; that they can manufacture and ship them more cheaply with less clerical work involved, and there are many reasons why a quantity would be more favorable and pleasing to them, as they like to introduce large purchases so as to quickly dispose of their product.

Would it not be far more advantageous, however, for the manufacturer to avoid placing his customers

at a disadvantage in competition by some other plan which would be fairer in its operation than a plan based on quantity only.

In some cases the smaller buyer is far more loyal and promotes the sale of the goods with much greater enthusiasm than *some* of the larger buyers, and is, therefore, entitled to receive every consideration.

Many a buyer of merchandise will take a larger quantity of an article than he can profitably handle because of the allurement of a larger discount. After he has sold three-fourths of the goods the profit still remains in the unsold fourth, and yet he must oftentimes sell the remaining fourth at a great reduction in price in order to dispose of it at all. It would have been a far wiser plan to buy the quantity that would probably sell out clean in the regular way, paying the price the quantity might warrant. The profit would have been larger in the end.

A quantity price plan or any reward for reaching a specified mark in mere volume is bad, in that it places before men a temptation (sometimes irresistible) to do something wrong to fulfill the requirements.

If a customer is handicapped by not having sale for any given quantity, will not his enterprise lead him to combine his purchases with others in order to get the price?

Or, may not his ambition lead him to purchase the quantity himself, and then may he not be forced to cut the price to unload the surplus?

By combination of orders, extreme prices are often extended to those who are not entitled to such prices, by reason of the character of business con-

ducted by them. In this way some concerns are placed in a position to cut prices, to the disadvantage of their competitors who buy for their legitimate wants only.

The quantity price plan is defective in that it fails to recognize the character of business or method of distribution of the party receiving the prices.

Recognized Channels of Trade Available

It absolutely ignores all established channels of trade and in some instances a consumer, either alone or by combining purchases with other consumers, can reach the maximum quantity, thereby receiving the extreme price, to the disadvantage of the legitimate distributor, who has probably introduced the goods in the market in question and who carries them in stock.

There have developed, through a period of years of experiment, thoroughly tested and successful agencies of distribution, wholesale and retail stores and business which afford the manufacturers far more economical, stable and satisfactory mediums for reaching the ultimate consumer than would be provided by attempts at direct contact.

Therefore, with the fact established that these regularly constituted agencies of distribution are an economic advantage, the quantity price plan is not regarded as essential or "down to date."

Those manufacturers whose selling plans have been most successful have provided in their sales policy a place for each factor in the distributing scheme. For each class of distributors a proper differential, with consideration to the service rendered and the expense involved, has been allowed.

Classification of the Trade.

Good results can be secured by classifying the trade and quoting accordingly.

This classification of the trade should be fair and thorough. Paper and printers' ink are cheap, and the mere statement, wholesale, or jobbers, on a letterhead is not necessarily correct. The business rating given in the commercial agency reference books is also very often dictated by the party himself, and is, therefore, made to suit his desire and purposes.

Deceit Practiced

Classification of the trade, should be according to a set standard and correct definition, and not be mere guesswork or salesman's "say so." Those in a position to know in the same city or territory, and fair-minded and unbiased enough to give a true statement, should be consulted. Trade associations will always very gladly investigate and report.

Employment of Commission Men by Manufacturers.

This practice is most unfair to the legitimate trade, as only too often the selling price at which such brokers are instructed to sell, are shaded in the anxiety to earn the commission. Again, being under no expense, carrying no stock, extending no credit, the broker is in a position to undersell the legitimate jobber who carries a stock and accounts, and is a responsible factor in the distributive system.

CHAPTER XII.

SELLING ON APPROVAL.

Such a practice as that of a salesman taking an order from a customer subject to approval and acceptance by the house is a most pernicious one, disastrous to the business and harmful to the concern resorting to such practice.

Salesman Tempted to Work in Customer's Interest

Perhaps the easiest way for the salesman to show a good volume of sales is to convince his customer that he is the man to deal with because, when he has it in his power, he will push an order through at a special price and at all times work in the customer's interest.

This, indeed, places the salesman in the anomalous position of "working in the interest of the customer and getting his pay from his employer," reversing the proper order of things, placing first the interest of the customer and next that of the salesman. If this condition of the control of the house by the customer and salesman is permitted to exist, the house stands merely a chance of getting what is left.

For a traveling man to accept an order at a cut price, subject to the approval of the house, leads the customer to think that under certain circumstances such an order will be accepted.

If the order is rejected by the house, the result

may be that the customer concludes that he is not among the favored few.

Do Not Allow Salesmen to Submit Orders at Cut Prices

On the other hand, if the order is accepted, the traveler having been advised of the cut price made by some other concern, he is justified in concluding that if the house accepts the order at a cut price, he is at liberty to make it to other customers, and he assumes that the house has not told him the whole truth; that a larger profit was made than he was given to believe was the case.

Then, again, will not many other thoughtless sales managers "go them one better" by "shading" this price, not only to the party who originally submitted the order at a cut price, but will they not extend their revised cut prices throughout the territory which they cover?

Nothing is gained by this process. If the salesman stands his ground and declines to consider the business by submitting the order at a cut price, the order will probably be secured through superior salesmanship at the regular price and values will not be affected.

Salesmen Do Not Realize How Small Profit Is

It is most difficult to correct the false impression which is held by so many salesmen regarding the margin of net profit realized. No matter how convincing the character of evidence which is submitted to them regarding the cost of doing business and the large amount of profitable business required to offset the amount of sales done on an exceedingly close margin of profit, they seem to be dis-

trustful and unable to realize that the facts submitted are absolutely correct and that the return for the capital and brains employed is very small.

The practice of taking orders subject to approval reminds one of the story of the young man who went into business and purchased a large opening stock of goods. He was not acquainted with the prices at which the goods should be sold to yield a profit. He had no means of knowing on what basis he could figure safely.

On the advice of some friends, as ignorant as himself, he proceeded to price the goods in other stores, with the idea of adopting their prices as his. As a result he adopted the lowest selling prices he could find were being asked on the various items. Yes, the sheriff took charge in due time.

A Mistake and Its Parallel

As foolish, unbusinesslike and prodigal as it may seem, did he not merely follow out the same policy as many salesmen advocate today? They have the price before them which the house has fixed as a minimum. Perhaps the house has given them the factory cost of the goods (this practice is not felt to be a good one—salesmen should not be furnished with costs), they know what it costs to do business, and yet they actually feel justified in attempting to induce the house to accept business on some other basis.

There are many salesmen to whom these remarks do not apply, but there are still those to whom the ideal house would be the one which sold *all* its goods as low, if not lower, than *all* other houses.

CHAPTER XIII.

FOOLISH SELLING.

Unprofitable conditions have often been created through the practice of contracting for or selling goods for future delivery.

Future delivery at a short period after the order is placed is not referred to, but prices will be announced in September for seasonable goods which are not bought by the consumer before June or July of the year following.

In the six or seven months intervening between the quotation and the actual delivery, there is every opportunity for others to quote against the price, and only too often have prices been shaded to meet quotations which were made by others.

Manufacturers have made such prices early in the season—often when they did not know what their raw material was going to cost. Such practice is, of course, unbusinesslike. It has, however, been followed by many manufacturers, and as one cannot avoid the truth by refraining from thinking about it, we might as well face the facts.

Give a little thought to such a practice and profit by concluding to make quotations less far in advance and to make prices go for a shorter period with the stipulation that delivery be made within that period.

Any citation on particular goods which have been

sold so far in advance as to bring about unprofitable conditions, would perhaps be embarrassing to the manufacturers of those goods were they to be mentioned in this volume, but while the facts remain as at present, they should be made the subject of careful thought and something done toward eliminating one of the pernicious practices of selling.

Selling at Old Low Prices on a Rising Market.

Selling at old prices on a rising market is somewhat akin to selling goods in advance without a knowledge of the market values at the times when goods should really be sold.

From 1907 to 1912, there existed in many lines of business a condition where practically every carload of goods that was bought by the trade gradually declined in price on his hands, at least in part, before it could be sold off.

What few advances took place were only temporary and short-lived. As a consequence, the trade throughout the country were compelled to sell goods on a declining market and the notice of the decline was distributed broadcast and seemed to become known at once to all buyers.

In the last half of 1912, there came a condition where the market was continually an advancing one. Under such circumstances, with the rising market, it would seem but natural for wise business men to take advantage of favorable conditions and thus in part counteract the effect of unfavorable conditions under

which they have been compelled to sell goods on a declining market.

Those who took advantage of the tide and turned with it, rather than fought against it by persisting in selling goods which are in stock or contracted for at less prices than the manufacturers are quoting, were able to make the profit to which they were entitled, instead of needlessly sacrificing it.

Yet in face of all this, many sellers who have had stocks bought at favorable prices or who have favorable contracts, virtually burn the wind racing through the country by rail or automobile, communicating with customers by letter, telegraph or telephone, offering goods to the trade (some of the goods six months before they can be used) at reduced prices.

Such business men cannot realize the advantage of advancing their prices in accordance with the conditions governing business. It should not need a word of exhortation on the part of any one to induce a business man to take his profits while he may, and it is felt that both manufacturer, jobber, retailer and salesman should look to his methods of a rising market and decide each one for himself whether or not they are in accord with the course which good business judgment would dictate.

CHAPTER XIV.

THE SALES MANAGER.

Who is to blame for the inefficient salesman and the demoralizing conditions resulting from their operations?

The salesman was either educated by a sales manager who impressed upon his men the importance of talking quality and service and real values, eliminating price as far as possible, or he was brought up strictly on a basis of price competition.

The Sales Manager an Important Factor

It has always been said by some good merchants that the sales manager is by far the most important man in the business organization. Upon his policy and handling of the business depends the results in sales and net profits. One merchant said that if he had $10,000 with which to hire a buyer and a sales manager he would pay $7,000 to the sales manager and $3,000 to the buyer.

If the position of sales manager is filled by one who is not strong, it would be just as well to eliminate the office of sales manager and let each salesman make his own prices as he sees fit.

Then, if the sales manager makes his prices merely asking prices, allowing them to be scaled down as the salesman pleases, will he run any chance of securing results which will be satisfactory?

Would not the office boy fill the position of sales manager just as well?

The sales manager is the one man above all in an institution who is largely responsible for its success or failure.

He should have all the qualifications of a salesman and few, if any, of his shortcomings.

He should have gone through the experience of the road.

He should know his trade to enable him to handle his selling prices intelligently.

He must have the respect and confidence of his men, the ability to pick out and correct their weak spots, and above all have a personality that fairly radiates energy and enthusiasm, at the same time holding a strong line on the men where the question of lower prices than their schedule provides for is at issue.

The Sales Manager Should Be Strong and Consistent on the Price Question

The sales manager must be educated to appreciate the fallacy of a profitless business, and must force a profit by refusing to accept such business. He must educate his selling force along profitable lines. He must show them that in the selling of goods, the net amount of profit is paramount to the gross amount of sales. He must learn for himself that a fair volume of business with a profit, is rather to be chosen than a heavy volume of business with no profit, and for his business salvation must compel himself as well as his salesmen to get an honest profit or pass the business.

The sales manager should teach the salesmen all

about the goods they have to sell; show them that the price is right; show them that the goods are of high quality and will sell; show them that the best service will be rendered at all times and that the merchant will get a full dollar's worth for every dollar invested.

It will be noted that this article does not deal with the meeting of prices by salesmen on the road without the authority of the house. This practice is, or should be, a relic of by-gone days.

To permit salesmen to make their own selling prices on their employers' goods is to provide for them a sink hole for the profits of the house; and if they cannot be broken of it, far better that they quit salesmanship and become auctioneers; then they can have unlimited latitude to indulge in the pastime of tobogganing on a sliding scale of price-making where no harm can be done.

The sales manager should thoroughly believe and practice the policy of fairness. He should be fair to the house and fair to the customer. He should preach the doctrine of trustworthy goods at uniformly right prices. He should sustain values by a one-price policy merit and win approval and trade for his house.

Practice What You Preach

Then, there is the example set of the high integrity and probity of the employer which has a great influence on the men and on the trade, for, where there is perfect frankness between employer and salesman and where there is honest intent of motive the salesman will reflect these ideals in his business relations.

One of the principles now recognized by the keen-

est and shrewdest observers is that the "square deal" principle is the surest and soundest foundation of success in a large or small business.

Let the employers or sales managers occasionally take a little time with their men and teach them this rugged independence, frankness and simplicity which has characterized many of our successful business men, but which spirit has become more or less torpid in our busy life because of the complex affiliations with antagonisms of supremely selfish interests.

Have meetings with salesmen and discuss questions of mutual interest so that they, in turn, will be able to intelligently go into the matter with customers, and will be able to accurately and favorably discuss goods, advantages of purchasing from their house, etc.

Salesmen with a poor sales manager lose their nerve too easily, and when they go up against hard luck for a few days, they think their prices are not right and get desperate, and to force business cut the price and make bad business worse, for they have established prices that they will not be able to get up again to a living profit.

Profit getting would be far easier if the business houses were to assume a broader attitude in instructing their salesmen.

It is useless to expect a new salesman to sell the output of all the factories in the country the first year he is on the road, and it would be far better to go about it differently, building up a good sound business on a profitable basis, so long as the man shows ability and promise of early success.

A courteous declination to meet a cut price will often enhance a customer's respect and a too ready compliance with demands for lower prices, rebates or claims will neither command the respect nor the confidence of the trade.

A firm refusal to comply with an unreasonable request, even when coupled with an implied threat to withhold future business, will as a rule, place the salesman in a better position for future profits than a compliance with the demand.

Because a competitor chooses, for special reasons or otherwise, to sell goods at less than their market value is not often sufficient cause for a house to lower its schedule of selling prices.

Firmness and Fair Prices Win

Customers soon distrust a salesman who has no firmness in maintaining prices.

If goods are worth \$3.35 it don't take a man to offer them at \$3.10. A trained water spaniel would fill the bill quite as well.

If, as previously stated, there is a report of lower prices being made by competitors, the salesman should get all the facts and unmistakable evidence, no matter at what cost, time or trouble, before he gives serious consideration to the report, or considers it as founded on fact.

Then, he should merely submit the facts, as he has them, to the sales manager for his consideration, investigation and action.

It should not be within the salesman's province to change prices according to any real or fancied com-

petition which he has presented to him. The sales manager should be the court of sole and final resort. He should be a "bull" on the market every time, and the salesman should be given no authority whatever to meet a price until he has been instructed to do so by the sales manager in due time.

The salesman is paid to dispose of certain goods, and if he varies the selling price to suit his own caprice or his customers' demands, where does the authority of the sales manager come in? Of what use is he? If the sales manager engages a salesman to assist him in disposing of merchandise, should he not have it understood that when he fixes a selling price that that price is the only price at which the goods may be sold? What progress can a house expect to make if it allows its salesmen to lower and raise prices indiscriminately?

Giving Salesmen Cost.

Bad Practice to Give Salesmen Costs

The practice of giving salesmen costs is one which is gradually being abandoned, as it has proven to be a drawback rather than a help to the salesmen—and it has no place in a one-price system. It lessens the salesman's confidence in his own selling prices, fosters price shading and is out of place in a business where the sales manager controls prices.

Often the sales managers, or principals of businesses who are held responsible for the selling end, are heard to condemn in severest terms the practice of cutting prices, the folly of selling goods without a profit, the high cost of doing business, the increased

expense growing out of additional competition, etc., etc., showing that they appreciate the importance of improved conditions and a better margin of profit—and yet these same men will continue to practice the identical methods which they have so strongly condemned in others. What right has any man to condemn the practice of price cutting so long as he will make concessions from his own quotations?

Such declarations indicate either a lamentable lack of knowledge of the correct cost of doing business and the corresponding proper basis for fixing selling prices or hypocrisy of the rankest sort. If a business man intends to accept every order he can get his hands on at prices to suit the individual case, he certainly is in no position to condemn others, whether they cut prices generally or only in isolated cases.

Mere Volume Worthless

There has been too much anxiety to do a large volume of business—forging ahead meeting prices indiscriminately with very little if any investigation, the sole aim being to get the volume of business. When called to account at the end of the year, we come up smiling and say, "Well, we sold the goods all right. Of course, our profits did not show up this year, but our business is established now, and next year we are going to make money." But to how many of us does next year ever come? It is apt to be the same old story of having a wish bone where the back bone should be.

Do not be afraid to lose an order with equanimity once in a while. The craving for business is in some men as the insatiable desire for wealth.

They cannot bear to lose an order, however unprofitable, and thus the gain of the order is too often a minus quantity.

Don't Be Afraid to Pass an Order Once in a While

The man who craves for orders at any price is not far removed from the miser craving for gold. Nothing can be said against an eager determination to get orders; but the man who carries it to the extreme must rob either himself or his firm of the due rewards of business, or must resort to deception and intrigue in order to make up his profits. It no doubt requires a firm will to let an order go by; but the man who can do it will be the gainer in the long run, not only in pocket, but probably also in self-respect.

It also requires a sound judgment to determine when to forego an order which is just on the borderland between profit and loss; and the experience which will enable one to determine this can only be obtained by a thorough grasp of detail and sound knowledge of the subject. In giving estimates nothing should be left to guess-work; all should be based on careful calculation. Then, if it comes to competitive bargaining, you know where you are and how far you can go. When labor and material are in question, it is only the firm which has its men thoroughly in hand, and knows their capabilities and their economy of working that can hope to compete. When it is a question of the sale of a commodity for which there is a market price, it is the firm whose financial resources and business system are the best that is likely to get the order.

Is it not true that the salesman receives much

blame for conditions for which he should not be held responsible? In such cases a salesman is given no authentic information as to what the overhead expense or cost of doing business is. He does not know the extreme price at which his house can sell goods and make a profit.

If he is a price cutter, should not a large portion of the blame be laid at the door of the sales managers who have "turkish towels in place of back bones" and who are ever ready to listen to, and meet, all cut prices which are alleged to have been made?

Big Retailers Do Not Cut

Of what use would the sales managers of large retail houses be if a vacillating policy obtained in connection with their selling prices? Did you ever hear of Tiffany's giving their salesmen authority to shade a price? Were you ever successful in inducing your high-grade retail clothier or your department store to meet a price at which you told them you could purchase similar goods elsewhere?

And did you not admire these houses for their policy? Did you not admit to yourself that they were the kind of people you wanted to deal with, especially in that they were willing to stand or fall on their selling prices, proving that a most careful analysis of conditions must have preceded the fixing of the selling prices.

If the sales manager deviates in one case and makes a lower price it means that he must preserve the average margin of profit by overcharging some confiding customer.

What reasons can you honestly offer for reducing

your selling prices after you have made them? You have figured the invoice cost of the goods plus overhead cost or selling expenses and a fixed percentage of profit. If you reduce your prices, is it not an admission that your figures were errors, guesses, or should it be inferred that they were made in an attempt to overcharge your customers?

If your cut-price competitor persistently undersells you and you are unable to secure your share of the business, revise your selling prices down to cost if you deem it wise, holding to that, for the cut-price house will go still lower, for that is their policy.

A Plan to Secure the Co-operation of Salesmen in Maintaining a Fair Schedule of Prices.

One of the best known methods of securing the thorough co-operation of salesmen in maintaining prices is to base their compensation on a share of the profits of the business secured by them.

This eliminates volumes of sales as the chief end and substitutes, in its stead, the idea of a fair volume of profits.

Being a partner, at least as far as the customers on whom they call are concerned, the salesmen are liable to have a greater interest in the business and to more watchfully guard the interests of the house.

Pay Salesmen a Share of the Profits

This profit sharing system (of which full details follow in Part IV of this book) has been found to be most potent in helping to maintain established prices. There is no in-

centive like it. On the salary plan the entire body of salesmen is at war against firm "No Deviation" prices; on a profit sharing plan the entire spirit is changed and stands for absolute maintenance of established prices which is sure to result in great benefits to all parties concerned.

The profit sharing system of compensating salesmen has worked satisfactorily, but if a house engages a man on this plan without proper regard to his ability, to creditably and honorably represent them and does not take a strong position on the price question, they will do much to demoralize.

CHAPTER XV.

A FAIR PRICE.

Said Charles A. Moore, President of Manning, Maxwell & Moore, Inc., New York, in an address recently:

"Merchants are not compensated excessively. Indeed, few pursuits require so much and give so little. But stability and a proper reward in the respect of those who know count often for more than money with many a man. And the merchant must take much of his reward in the satisfaction of good work well done—the best reward for the good fighter, always.

"I have often compared the relative necessity for perfectly accurate methods of thought, for the calmest of unprejudiced judgment and the greatest belief in one's self in many branches of human endeavor; and in no branch of science, or philosophy, or commerce are the conditions so exacting for success. Only 5% of us are permanently successful, and a small fraction of one per cent. eminently so. For we have not only a prize for success, but a penalty for failure, which is so severe that it is measured by one word—ruin. The race is not for a month or a year, but for a lifetime. And one day, after thirty years' success, may mean failure in the race, instead of success. Few pursuits are so hazardous and so fatal to bad judgment."

The average buyer is willing to pay a fair and reasonable price so long as he knows that it is the lowest that the seller is making on the quantity purchased.

A Fair Price for the Asking

If those in a given line of business are rendering a service to the community they are entitled to proper compensation. The only way to get such a compensation is to fix a selling price sufficient to cover it. Experience has proven that this price will be paid just as willingly as a lower one and greater respect will be had for those with sufficient sense to ask a profit bearing price. IN OTHER WORDS, THE SECUREMENT OF A REASONABLE PRICE IS LARGELY A MATTER OF ASKING IT, and quietly but firmly insisting upon it.

If you get a fair price, the chances are that you are maintaining a first-class business house, that your establishment has an air of stability and character; that your well-paid help lend you their thorough co-operation in handling the business to the best advantage, and that the whole general tone of your establishment inspires confidence and attracts and holds trade.

On the other hand, if you sell cheaply you are not in a position to maintain such a standing in the trade, and the better class of buyers who consider quality and service as well as price may drift away.

Remember that often a low selling price indicates the quality and character of the goods rather than the margin of profit and that instead of reducing your price it is incumbent on you to indicate to the prospective purchaser wherein your product excels. Of

course, in a few cases with short-sighted customers you may lose a first order, but you will get subsequent orders as soon as the customer sees where the lower priced goods are much dearer considering the quality, and when he realizes the satisfaction which he has sacrificed for a trifling difference in price.

After Cost Is Known, Be Sure to Get a Profit

At a recent meeting of some manufacturers, the chief subject of discussion was that of the installation and maintenance of proper cost systems in their plants. The cost systems had been in effect some years, but the conditions were still unsatisfactory, and at this meeting it was hoped that some means for improvement could be devised. Some placed the blame on careless figuring of cost, some on inefficient salesmen. Finally, one man present declared that even if the cost systems were carried out with the greatest degree of accuracy the profits would vanish unless the sales manager—the man behind the desk—had the courage and sagacity to fix and maintain a proper margin of profit.

Don't Blame the Other Fellow. Look Inside

Of course, the cost of doing business must be accurately determined, including not only some, but all the items chargeable to the expense account or factors in the cost, and this expense must be added to the flat cost in order to arrive at the true cost. Then fix your margin of profit, establish the selling price and get it.

Individually, men are apt to place the blame for cut price on the other fellow. From their numerous points of vantage they view the chaotic condition of

affairs, vaporize upon trade inconsistencies and then dig in with all their might and main to secure the business regardless of the promptings of their better judgment.

When the expenses of business are figured, there is little enough left so that there need be no bashfulness in asking a fair price at first.

It seems as if men were ever prone to fool themselves. We are all of us more ready to believe what we would like to have true, than what is probably really the truth of the matter.

Business men expect more than there is any good reason to believe, and when they get to figuring on a business proposition, they give the good side of the ledger the full benefit of every doubt.

A Fair Price Will Never Be Secured Unless It Is Asked

Few merchants, not more than a score in a hundred, perhaps, either know how to figure actual cost of their goods, or are willing to admit that they cost what they actually do.

There are merchants who like to make themselves think they are making a good profit, and like to *think* that they own their goods cheaper than they actually do.

They omit to figure many such things as cartage, insurance or store expense because these things may not be conspicuous in a given transaction.

When it comes to net profit the little left had been almost entirely eaten up by the little expenses not counted on. It certainly takes a pessimist to be a good hand at counting on net profits.

The making of prices on many lines of goods

which are not subject to the extremes of competition, is done by many successful sales managers on the law of average.

To be gifted with the power of knowing when goods must be sold close and when a good profit can be made, is most valuable to every one who has to do with the making of selling prices on merchandise.

Possibly the poorest method of marking such goods is on a percentage basis.

Goods should be examined; the value to the retail and consuming trade judged; prices fixed accordingly and then reference made to the cost in order to see what the condition is there. If the selling price thus fixed shows a big profit, let it alone. If the selling price is too low, raise it.

Slow selling goods, specialties, and new goods should, of course, be marked at a higher price to pay their carrying charges, and extra profit, when it is possible to get an extra profit.

This system is used largely by department stores and catalog houses who make a large extra profit on such goods and then make very low prices on fast selling staples.

This law of average, however, should not and cannot permanently be employed in the distribution of staple lines of merchandise.

The suggestion is made, however, so that maximum amount of profit may be secured on all lines.

CHAPTER XVI.

CO-OPERATION.

The general impression seems to prevail that the interests of the public are best served where there is the freest play of price competition.

We believe, however, that in the preceding pages of this work it has been very clearly demonstrated that price competition leads to conditions which are bad for merchant and consumer alike, and it is certain that in many instances, such unrestrained price competition has led to the disintegration of industries and the throwing out of employment of thousands of people, thus directly harming the public of all classes—stockholders, employees and all those directly or indirectly dependent on the industry.

In some cases it has thrown a piece of goods off the market which piece of goods has been a desirable article for the consumer to be able to purchase.

The remedy, then, for such a condition, of unrestrained price competition would seem to be an understanding among distributors as to the minimum price which will be accepted for certain merchandise.

This is worthy of a vast deal of earnest, thoughtful consideration.

First, in order to approach the subject properly, let us consider the legal phase of the subject. Un-

fortunately, the laws prevailing in the United States are not favorable to co-operation in the form of price agreement, but this is a matter which cannot be here corrected, and our duty, in this connection, lies in pointing out just what the interpretation of the law has been and the general attitude which the courts have assumed in cases of price agreements among distributors.

The Legal Side

An old English decision held that all parties to a price agreement were indictable: "That at what rate soever the price is fixed, high or low, makes no difference, for all such agreements are of bad consequence and ought to be discountenanced."

This is substantially the policy of the law down to the present day, as the interpretation of the Sherman Anti-Trust Law has demonstrated.

A copy of parts of the Sherman Anti-Trust Law, the Canadian Combines Act and the German law on Monopolies and Price Agreements is given on pages 199 to 207, being omitted here to avoid obscuring the text.

However, even if price agreements were not forbidden by law they are difficult of operation and have probably never been absolutely maintained. Broken price understandings, made at a time when the attitude of the law was not clearly against them, have laid the foundation for distrust and trade hatred and fostered a strong underlying lack of confidence among those in the same line of business. Therefore let us proceed to a consideration of some of the relations between competitors, and ascertain how a better foundation for profitable conditions may be laid.

Lack of Co-operation Among Distributors.

Thus far, in this work, we have treated largely of the efforts of individual sellers to secure a fair profit for their merchandise.

We have spoken of the policy of the individual house in relation to the securing of a fair profit. Now, let us consider the matter of co-operation between those in the same line of business.

Many Guilty of Contributory Negligence

The conditions, in cases where there is no co-operation, are not to be envied. It has been said that business men are their own worst enemies and are, themselves, responsible for many of the unprofitable conditions about which they complain. Possibly, many will promptly plead "not guilty" to such a charge, but on more mature thought, it is certain that quite a number will at least admit being guilty of "contributory negligence," for does not lack of co-operation constitute "contributory negligence?"

What results can be expected where men in the same line of business have not been personally acquainted with another; where they compete with men with "angel wings" and, on account of not knowing them, fall into the mistake of believing that their heads are ornamented with a well developed pair of horns?

Competitors have been known in some lines, who seem to have spent their years of business activity in much the same manner as the two enemies who hid up the road for ten years, watching and waiting in the hope that each other's hearse would come along so that they could scare the horses.

There have been cases where men, sales managers of competing concerns, have done business in the same city for over twenty-five years and have never met each other.

Bury the Hatchet

These gentlemen have been spoken to about such a condition. They thought it of little consequence, even though the years had borne no surfeit of profits.

Many business men have relied for their knowledge of conditions on the statements of salesmen and customers, on which biased and often incorrect and inaccurate reports they have depended without further investigation and, what is most serious, have based their actions accordingly.

Personal acquaintance with and confidence in competitors is quite a factor in business.

A strong illustration of the effects of lack of friendly acquaintance and co-operation is afforded by this story which was recently related by a man of long experience in a certain line of business in a Western city:

A True and Interesting Story

"For many years an unfriendly feeling existed here among the trade. Men in the business did not care to meet their competitors in the street, or anywhere else, and there was made a brutal scramble for business. Competitors were knocked, goods misrepresented and the public dissatisfied. Life under such circumstances became unbearable. My father burst a blood vessel in his brain and died—my uncle in the same line of business succumbed. Sharp died suddenly and Shuster, who operated a little shop,

passed out. All of these men were in the prime of life.

"Many of you will remember Sharp—the man who sued a great many concerns in the United States for infringing certain patent rights which he held. Sharp put up a bitter fight and the fight waxed warmest here. In some instances he won, but it was like most law suits, "when you win you lose." After going through a siege of this and spending most of his capital in litigation, he settled down to business. He had wasted his energy in fighting and as he still held out unwholesome thoughts against his competitors, he gradually lost ground until he hardly did business enough to hold the franchise.

"One winter evening, it was quite dark, I was leaving my place of business to go home, when I met Sharp. He walked up to me as I was untying my horse and from the way he addressed me I concluded that something had come over him,—he was a changed man. He spoke to me in a very kindly way,—in a way that touched me. He said, 'Young man, I have been watching your progress in business for some time, and I can see that you are doing an honest business and that you are doing good work, some day you will have all the business.' I replied, thanking him, but expressed the belief that he would always have his share of what was going on. He shook his head, however, and bidding me good-night, was soon lost in the darkness. I never saw him alive again. A few days after a man, who lost considerable money on account of the lawsuits Sharp brought against him, called on me. He is an old Roumanian, honest, but one of the kind that will carry a grudge till the end of his days. He ap-

proached me with a grin on his face that extended from ear to ear. He said, 'What do you think?' I said I did not know what to think and asked him what the joke was. He came over, put his hand on my shoulder and in a hoarse whisper said, 'Sharp iss dade.' 'My!' I said, 'I am sorry to hear that,' and I was considerably affected when I thought of our last meeting and realized how lonely the poor fellow must have been. He had no family here, his business had gone by the board and he had reached what he considered was the end and quickly passed on.

"The old man did not share my feelings. He visited the undertaker's establishment several times before the funeral and gazed upon the prostrate enemy with satisfaction. Sharp was cremated. The Roumanian followed him to the crematory, saw his poor body consigned to the fiery furnace, and last, but not least, saw him fall to ashes, then he was satisfied. Afterwards, he purchased from the executor a pair of Sharp's spectacles, evidently with the idea of discovering from what viewpoint Sharp took things. Can you beat that?

"Well, now you may think that the old fellow must have been a fiend—on the contrary, he was and is a good-hearted, soft-hearted fellow, who would do no man an injury, but he had been deviled to such an extent that he was not accountable for what he did. If he had been a man of higher intelligence, he would never have done such a thing. He was a man that had sprung from the ranks. Poor old Sharp in the end showed himself to have been a good-hearted man, all he needed was to have some one strike the right chord."

The particular industry in which the narrator

and those involved in this true story were and are engaged is one in which just such lack of co-operation, mutual confidence and friendly feeling has brought about deplorable conditions. The product which has been the subject of brutal competitive methods has deteriorated in quality and the result has not only been seen in a lack of profit on the material sold, but active inroads have been made into the business by an imitation product which has been manufactured by an apparently wiser set of men.

The word "Co-operation" comes from the Latin "Co," meaning "with," and "opus" or "operis," meaning "work"—to work with.

The first form of co-operation is with yourself. The first way to co-operate with yourself in business is to deal fairly and squarely with yourself, which means getting a living profit and permitting others to do the same.

Then co-operation with others will be an easy thing. Pull with those in the same line of business. Don't pull against them. No man will ever succeed who has not learned to work smoothly with other men.

Said a large manufacturer recently: "What would happen without co-operation? What would be the result if we separated entirely, simply going upon our way, doing our own business in our own way, when, how and where we please? What will be the result practically, if we do that?

"Why, we will say here is a company which has a mill in a certain locality—it is not necessary to name that company, but it has withdrawn from our councils and it is not disposed to co-operate, and it proposes

to do business in its own way and to charge such prices as seem to it necessary, in order to get the business it wants; in order to fill its mills. That company goes into a certain locality and finds Mr. King and Mr. McCullough with mills in that locality and it proposes to get the business of their clients and, in the ordinary way it goes to Mr. King's client and says, 'I want your business, and I will sell you bars at $1.10 and $1.05,' and Mr. King's client says, 'I think I can deal with you; that is pretty low, but I will let you know to-morrow morning,' and to-morrow morning or before to-morrow morning Mr. King's client goes to Mr. King and says, 'I am offered bars at $1.05. Do you want to lose that business; do you want to lose me?' and Mr. King says, 'Well, no, I don't think so and if a company is offering bars to you at $1.05, I think I will let you have them.' 'Well,' the man says, 'then I think probably I will stick to you, I will let you know to-morrow morning.' And he goes to Mr. McCullough and goes through the same thing there and Mr. McCullough says, 'Is Mr. King offering them at $1.05?' 'Yes.' 'If Mr. King has done it I am surprised, but I think I will let you have them at $1.04. You are Mr. King's client but I want business and I will let you have those bars at $1.04.' And he plays those two against each other as long as he can, but finally he goes back to his first company, which started the trouble, and closes with it at $1.00.

"In other words, the customer is not playing this one company against all the rest, but he is going to get others in there and they are playing against one another, whereas, if they were in consultation or co-operation, Mr. McCullough when he received the offer,

would go to Mr. King and say, 'Your customer has been around and says that an outside company will sell at $1.05,' and then Mr. King and Mr. McCullough finds out about where they stand and the man has failed to play them against each other; and if they have to deal in such a way as to prevent this outside company from taking the business at least they know what they are doing and they did not have to fight each other.

"The point is stated in a rather bungling way, but you gentlemen who are in business from day to day know better than I do how it is done. And if you are in consultation and each knows what the other is doing, you cannot be used against one another. Having full information as to what one another's prices are, you can take care of yourselves against the one company who is entirely outside of your friendly and proper co-operation. That is the point."

This is a subject which has become better understood during the past ten years than during any previous period within our knowledge.

Way back yonder in history, men led a life of seclusion in caves, being self-sufficient and having no inter-dependence or relations of any character with their fellows.

Former Conditions Not Desirable

There was, indeed, an entire absence of friendly intercourse and their only meetings were in course of conquest and of a hostile character.

Strange to say many business men have followed a similar course, not realizing that in the modern business world, there are many cases where the pursuit of such a course is the height of folly.

To-day, the relation between business houses is greatly changed. If one house commits an act, which is unfriendly or which tends to have an unfavorable influence on the trade, it is quickly felt throughout the territory and, indeed, throughout the country.

Demoralization Cannot Be Confined to Limited Territory

The issues are not between man and man, or house and house. Throughout the complexities of modern business life and in the onslaughts of the many enemies to a living profit, there comes to light *a collective interest which only collective action can protect.*

Lack of acquaintance among business men aids and abets lack of confidence; and lack of confidence generally, has been the cause of several severe financial panics and is the cause of panics on prices in business to-day.

Confidence (the father of co-operation) has been the principal factor in eras of prosperity.

Confidence is also the keystone of the career of every successful business corporation.

We can produce confidence by square dealing and not by underhand methods, not by deception, not by vindictive assertions.

Profits might be increased all along the line if merchants would "come out of their shell" oftener, for lack of personal acquaintance, which engenders suspicion, or perhaps, vindictive competition, stand in the way of the many advantages to be gained by becoming acquainted and establishing a friendly, honest and frank means of communication between each other.

Men can do business more pleasantly and profitably if they will be neighborly, and granted common honesty and fairness, they grow more neighborly the more they meet one another.

Said Charles A. Moore, of New York, recently:

"Two men who have put their legs under the same mahogany and eaten from the same table are more potent judges of each other than any distinguished law court in the land.

"If you know a man well, know him personally as an individual and not as a name on a sign or a letter head, you care much more what he thinks of you and he cares much more what you think of him.

"Many a man who can stand the adverse comment of thousands of unknown people in the press of the land, could not and would not face the dislike of half a dozen men he has known and seen daily for ten years.

"Disgrace is only thought of in terms of those whom we know as men and women. Abstract disgrace is as weak a thing as I know of.

"And so, commercial fraternity is a very real and very great blessing, and a very near and very great need. And the great power of commercial fraternity is, that the man who doesn't play the game fairly, cannot have that fraternity; and the man who does play the game fairly has it in abundance."

Much work, in the promotion of co-operation, has been done through local, state, sectional and national organizations, which serve to elevate the standard of commercial morality, while, at the same time, making possible the enhancement of profits to a marked degree.

The increase of mutual confidence among business men will do much to bring about a better condition of affairs.

Remember that your competitor is probably as far above dishonorable actions and trickery, cunning practices as you are.

Now, it is not hard for men (who are men) to get together in a friendly spirit. All have many interests in common, and there is much to gain through co-operation.

Business men must co-operate if they are to be progressive and up-to-date.

The man who *knows so much* that he is not willing to discuss business matters with his fellows, is starting into a decline and he will be behind the times before he knows it.

Co-operation Essential

It is to be hoped that the business men of the United States, the majority of whom are good men, intelligent and educated men, will drop all feelings that they may entertain against their competitors, throw out thoughts of good will and confidence, get together and have little friendly meetings.

They will find upon closer acquaintance, that there is much to admire in men whom they thought had not a single redeeming feature, and will realize that after all every one is working with the same object in view, and that is to live, so there should be a more universal adoption of the motto: "Live, let live and help others to live."

As a few of the many practical ways in which this spirit of co-operation may be applied, we might suggest

the discussion of the credit standing of common customers together with interchange of information regarding the standing of such customers.

There could also be a free interchange of information about employees who had been discharged for cause, so that there would be economy in those in the same line of business not having to suffer loss repeatedly from the same unreliable or dishonest employees.

Besides these items which need attention, there are many other necessary business reforms which would save to the men in the business a little money and at the same time reduce the strain to which they are subjected.

For instance, in the absence of friendly meetings among competitors, exchange of confidence, etc., the individual is doubless much worried in the event of business slacking off, and on such occasions prices are often cut in an endeavor to get business that did not exist—each one believing that the other was doing it all.

Now under friendly arrangements, all can have a fair idea of what is going on because conditions are discussed honestly and frankly. When dull times come and the trade does not reach a fair volume, it is useless to try to force business when there is no business, but through co-operation men may look for the cause elsewhere, and it is often found to be attributable to general conditions.

Indeed, in times of depression, it has invariably been the expression in various lines of business, that the percentage of expense increases with a decreased volume and that instead of cutting prices, it is neces-

sary in order to defray expense to get a little better price than when one is doing a heavy volume of business.

Already, we see the harvest of a more kindly and brotherly feeling, and personalities have not the same stress laid upon them as in former years. It is impossible to regard with the same continued distrust the man whom you meet socially and with whom you sit at the same social board. It is not only in the Arab's tent that bread and salt are a pledge of friendship, and a great change is made in a man's attitude toward a competitor simply by a social meeting. "The old order changeth, giveth place to new," and men begin to realize that common benefits accrue from co-operation and not from that false proverb which professional men are ever quoting, "Competition is the life of trade."

The Get-Together Spirit Profitable and Pleasant

Men in the same line of business, co-operating through lunch clubs or other friendly meetings, should endeavor to be very frank with one another, and when called upon to explain some act that does not appear to be quite friendly, there should be the freest spirit of frankness and honest explanation which in almost every case will be entirely satisfactory.

Under such favorable circumstances, the feeling of mutual distrust should give way to one of friendly co-operation and there should be an elimination of petty local and sectional relations in favor of a broad fraternal feeling.

Despite any general feeling which may have existed, and an impression that if there were ever un-

righteous men, they are your competitors, the fact remains that you are all in the business to earn a fair profit on the capital and brains invested, and that your stockholders often have little sympathy with trade jealousies, but what they are after is profits, and if in order to insure the securement of profits, it is advisable and thought wise to co-operate in a friendly way with your competitors, it is certain that they would answer in no unmistakable terms, "Co-operate."

Again, will the stockholders accept as an explanation at the end of the year for no dividends, your statement that such and such a house in the same line of business, has been doing so and so, and that you have been punishing them by a cut price war? Will the lack of dividends in such a case satisfy those dependent upon the business for a livelihood? I think not.

When there are friendly relations between competitors, salesmen are quick to feel the pulse of affairs, and they promptly realize that under more favorable conditions, in view of friendly relations between competing houses, that any reports that they may make of improper action on the part of a competitor, will be thoroughly investigated.

If the managers of the competing houses are co-operating nicely, Smith will telephone Jones and say, "John, one of my men seems to think that you have made an impossible price on such and such an inquiry. What about it?"

Then Jones will answer frankly, and Smith will tell his salesman that he has investigated carefully and feels that the report must be erroneous.

The other day a case came to my notice where

Will the Stockholders Accept the Explanation?—See page 146.

there was a bid in for certain supplies for a building operation.

The salesman came to the manager and said they were $12.00 a house higher than their competitor. The sales manager called his competitor on the telephone and the competitor said their bid was a certain figure, which happened to be $1.00 a house higher than his price.

It is quite evident in this case, that this friendly feeling saved them considerable money which otherwise would have been thrown away into the hands of a designing and unscrupulous buyer.

Sometimes it has been the practice of competitors to meet at lunch or otherwise and discuss the question of the prices.

In the preceding pages, we have touched upon this question as to its legality.

A prominent lawyer, who has made a specialty of corporation law, was recently consulted and asked the following question:

"A number of manufacturers of a certain line of goods, representing approximately 70% of the output, have formed a club, the object of which is to build up profits in a certain line of business. They have no binding price agreements, but they do meet occasionally and confer as to prices at which they propose to sell and do notify one another of their intentions to sell at certain prices with the understanding that there is absolutely no contract and no agreement further than that mentioned. Are these manufacturers transgressing the Sherman Law?"

He replied as follows:

"I answer this question negatively; but must necessarily add thereto a word of caution.

"I know nothing whatever which prevents manufacturers from conferring together concerning matters of mutual interest, stating to one another their views and even stating their intention as to prices.

"If the matter stopped there, no trouble would ensue.

"Under this state of facts, however, I am very certain that any court nowadays, would in case of an averment of conspiracy to regulate prices, let the facts go to a jury for the purpose of having it determined whether or not there was really an agreement to abide by the prices named.

"If the jury found that there was an agreement, even though there was none, the court would probably not interfere with the verdict.

"There is always danger of someone misunderstanding the agreement and misstating it by reason thereof, and also of someone willfully misstating it.

"Given testimony as to conference and naming of prices, and a pretty general following of these prices by all the manufacturers, the foundation of a charge of actual agreement would be laid, sufficiently to make it pretty certain what a jury would do.

"As a matter of law, however, such conduct as you have stated, does not amount, in itself, to a violation of the law."

The practice in some instances has been to discuss prices informally, and the representative of one house (possibly a large factor in the business) would say, "Well, gentlemen, I will send you the prices which

I am going to ask for my product, and I shall consider myself in honor bound to notify you in case I should see fit to ask lower prices for my goods. I hope that you will treat me in the same manner."

This has operated satisfactorily even in large lines of business where the total value of the product would be in the neighborhood of $18,000,000 or $20,000,000 per annum.

A plan of conduct within the law and simple and effective in operation would be as follows: Granted that there existed a friendly feeling among those in the same line of business and a willingness to credit all with honesty of purpose, and truthfulness (at least temporarily), let there be a meeting for the purpose of outlining a plan of action which would tend to improve conditions. Let each man offer to send his price lists to each and all of his competitors and to notify them of any and all changes or of any intention on his part to deviate under certain conditions or in special cases. This would be done individually and with no agreement or understanding on the part of any to sell at equal or higher or lower prices. The aim would be to conduct business in the light and to be able to check up the statements of foxy buyers.

With this basis there could be a free communication between the houses and inquiries could be freely made as to the correctness of rumors heard in the course of business.

Frequent meetings are good, and it is a happy choice to have an able chairman to avoid any unkind insinuations, or charges against a member and to hold

in check all disputes and "post mortems" held over lost orders.

If the business is one other than a regular merchandizing business and orders are solicited by estimating or bidding, it might be helpful to make it a practice to send the secretary (who had better be a man not otherwise connected with the business) a copy of all estimates and bids. Then, if so directed, the secretary may send to all bidders a copy of the bids of others competing for the business.

There would be no agreement as to prices charged in estimating, but the present deceit practiced by buyers would largely be checked by such a system.

No plan or system such as the one just suggested, or any other mode of operation will serve to guarantee honesty and fairness. Narrow-minded men, crooked men, men who are "money mad" and blind to honesty, can destroy the profits of any business into which they enter, but a fair trial and a fair chance for this or any other system which is within the law can hardly fail to prove effective.

When men are merely bound by honor as gentlemen and are not coerced or forced into a proposition, they have been found to be more honest and fair than when they have a money penalty hanging over their heads, or some other form of penalty to force them to "be good."

Of course, there is no means in such cases of compelling any one to co-operate and business may be lost by reason of some people who will not consent to do the fair thing, but the entire market may be affected if any one seller commits an unbusinesslike act and the

consequent demoralization in prices will mean quite a loss.

A member of the bar, who has had considerable experience in corporation law, said lately, "I do not believe that it was the intention of the framers of the Sherman Anti-Trust law to prevent business men from having such understandings as would prevent business suicide," but he said in talking to a business man who had considerable experience, "The trouble with you gentlemen is, that two or three of you get together and maintain fair prices,—you are bothered by the fellow on the outside and then in order to make your conditions more perfect, you go after him and try to force him to do the same as you are doing. That constitutes violation of the law as you are attempting to interfere with another man in the conduct of his business.

"I know it is important that such a man should cooperate, but you are up against conditions where you must either get along without his co-operation or abandon your attempt to get fair prices.

"You cannot attempt to force a man who won't co-operate. If you do, you will get into trouble."

These well directed efforts to reasonably, sensibly regulate the conduct of business and to avoid giving goods to customers without a profit, have done much to steady the market and have had salutary effect on general prices.

Businesses have been saved from almost inevitable ruin, and thousands of dollars of profits have been made, where they otherwise would have been needlessly sacrificed, by sensible co-operation on the part of those engaged in business.

Of course, the strength of such a co-operation depends on a spirit of fairness, of influence and of moral suasion on the part of those who desire to get a profit over those who are not so strong on the profit proposition.

While it may not always be possible to induce all distributors to co-operate because there are in every market, those men who seem to be of a narrow mind and who, for one reason or another, hold aloof from co-operation, either because they are obstinate or because there is a yellow streak down their backbone.

It may be that the one who refuses to co-operate seeks to make capital of his "independence," but it also may develop that he is one of the class to whom John D. Rockefeller, head of the Standard Oil Company, referred in his article which appeared in the *World's Work*:

Rockefeller's Remarks on Co-operation

"In my early days men acted just as they do now, no doubt. When there was anything to be done for trade betterment almost every man had some good reason for believing that his case was a special one, different from all the rest. For every foolish thing he did, or wanted to do, for every unbusinesslike plan he had, he always pleaded that it was necessary in his case. He was the one man who had to sell at less than cost, to disrupt all the business plans of others in his trade, because his individual position was so absoluetly different from all the rest. It was often a heart-breaking undertaking to convince those men that the perfect occasion which would lead to the

perfect opportunity would never come, even if they waited until the crack o' doom."

Again, if a jobber or retailer in a market, does not see fit to maintain prices, is it not probable that the manufacturers of the goods handled, could be easily induced to urge such a firm into co-operation as few manufacturers to-day desire to have their goods distributed on a basis which is not considered fair by the entire trade.

Also, through friendly relations with the jobbers or manufacturers in other sections, there could be co-operation and a spirit of fair play between them so that those from the other sections should not invade and cut prices, as has sometimes been done where jobbers are keen for a proper regulation of profits in their own vicinity, but show little regard for their brother-merchant when making sales in territory other than that covered by their own local understanding.

With almost all men, the instinct of self-interest predominates strongly as against the interest of their fellows, but if such men will take sufficient time to study the question, it is certain that they will be convinced that their own self-interest will be advanced by co-operation.

CHAPTER XVII.

RESALE PRICES.

Where the selling prices of the product of a manufacturer have, by unrestrained competition and senseless competition, been brought to a point where they are without profit to the distributor, the manufacturer is often approached by dealers who are interested in his goods and is asked to take some steps to better the conditions surrounding the sale of his product,—thus relief is often found from profitless conditions by the establishment of a resale price by the manufacturer.

A resale price is a price fixed by the manufacturer, below which it is stipulated the distributor shall not sell. Or, one may say, that a resale price is an agreement between the manufacturer and the wholesaler or retailer or both whereby the manufacturer specifies the minimum price at which he will permit his goods to be re-sold.

Resale prices are not advocated generally, for where the distributors have been making a fair profit in connection with the sale of the commodities which they handle, it is unnecessary to surround their sale with any particular conditions.

It might be said further in this connection that the tendency on the part of many of the manufacturers in establishing a resale price for the merchant is to make the price quite a low one and the percentage of net

profit on goods sold on resale basis, is apt to be less than if the goods were not subject to excessive competition and were on an open basis.

It may be said, therefore, that resale prices are not advocated generally on all goods, but that a resale plan is only desirable on goods on which profit has vanished by reason of unrestricted competition and over-anxiety for business.

Necessity for Control of Distributors.

Some merchants have contended that if they buy a commodity and pay for it, they may sell it at any price they see fit. This is true to-day on patented goods not sold under resale conditions, but where patented goods are purchased and resale conditions are made known at the time of the sale, the buyer of such goods is bound by the said conditions.

At first thought this may appear to be un-American and contrary to public policy. The Supreme Court of the United States considered this particular phase against Sidney Henry *et al,* and arrived at the conclusion and decision as indicated by the following: The defendants who were on trial for contributory infringement of patent, claimed that it was unfair that the patentees should be allowed to dictate the selling price on a piece of goods because such conditions might inconvenience the public and involve innocent people in unwitting infringement.

The court ruled that the public always was free to take or refuse patented articles on the terms im-

posed. Said the Court, "If the conditions be too onerous or not in keeping with the benefits, the patented article will not find a market."

The public by permitting an invention to go unused loses nothing which it had before and when the patent expires the public will be free to use the invention without compensation or restriction.

Thus, it may be seen that the fixing of resale conditions is no hardship, but is a protective measure and if any are unwilling to be bound by resale conditions, they need not purchase the goods.

It may be pertinent at this juncture to say that the wholesaler and retailer are merely the agents of the manufacturers whose goods they handle, and it is proper, both from a moral and legal standpoint, that a manufacturer should be permitted to oblige others to respect his property rights. The manufacturer has full authority to dispose of his goods as he pleases, and if for better service of the public, for economy and for convenience he employs middlemen as distributors for him, acting as his agents (in fact, if not in law) should he not have the right to compel them to handle his products as he does or would do himself?

Possibly, if all the distributors were fair and equally intelligent regarding the overhead expenses and desirous of getting a profit, no control over the resale price would be necessary, but as is well known this is not the case. Almost all merchants start out to get a profit, but some become scared by competition and the situation gradually becomes so complicated that each one does things which are so improper and unprofitable as to require a controlling hand.

Nor do we think that the exercise of control is unnatural or is an admission of weakness on the part of those who control, viz.: the wholesalers and retailers.

Students of sociology and psychology tell us that the factors which govern the securement of things desirable, are to a great extent, governed by competition. Indulging in this competition, we find men whose temperaments are varied. Some temperaments want the risks great and the prizes big, even if they must be few. Other temperaments want risk eliminated, honesty assured in practice and compensation guaranteed to all.

So long as both temperaments are present in men, it is safe to say that the game will be kept interesting by preserving something of the risk.

The prizes should go to those who have trained most consistently, who have played hardest, but withal have played honestly and fairly.

Cheating should be eliminated, and violation of the rules should be followed immediately by disqualification.

The establishment of the rules of the game lies within the province of the public and the honest business men.

Seeing that the good or ill fortune of the player depends not only on his skill and means, but also on the rules of the game, and how they are respected, it is worth while to consider the bearing on the welfare of the community, or rules which would have for their purpose the regulation of business by fair and equitable means.

Then, when proper rules are compiled, it should be remembered that non-enforcement will debauch the game.

Failure to uphold the rules of the game, failure to enforce the laws governing proper business intercourse, is a form of law-impotence which loosens the masonry of good business and menaces the maintenance of a fair schedule of prices.

In enforcing the rules, no favoritism should be displayed. Those who cut prices generally try to practice general denial and bluffing it out, and, especially resent any attempt at restraint.

Restraint in such cases, breeds a resistance corresponding to the loss of the special privilege it imposes.

When we go to short-chain the price cutter and place him on an even keel with his fellows, he snaps like a jackal for what he calls "liberty" to do as he sees fit, but what he really wants to retain is the "license" to harm those in his line of business by underhanded methods.

The circle of opportunity for business men is narrow enough as it is, and to suffer the big player to violate the rules of the game unpunished is doubly dangerous.

Those who handle the executive end of price maintenance plans should brook no favoritism or compromise.

Future business welfare demands men of *granite* at the strategic points. By themselves, without rules, honest men can get no foothold at the strategic points where conditions are made, where the weal and woe

of both business men and public is determined. Without aid, they cannot maintain themselves in these competitive fields.

It is, therefore, of prime importance to establish and enforce rules which will serve to lift the plane of competition.

Already in banking we see a business, once the happy hunting ground of swindlers, which by regulation, has come to be a field for honorable men.

Why Should the Manufacturer Concern Himself with the Price at Which Goods Are Resold?

Formerly the manufacturers felt that their interest in the goods ceased immediately on their sale to their customer. There are still some manufacturers to-day who hold this same opinion. Some manufacturers have expressed the belief that it would be a piece of impertinence on their part to tell their customer what he should do with the goods after he has purchased them.

We have already, in this work, treated upon that phase of the situation. The manufacturers have a direct interest in the manner in which their customer is conducting his business, and of the influence exerted by him upon market conditions, and upon his competitors. It is of this that if the soundness and profitableness of those encouraged in distributing manufactured products is adversely affected the manufacturers will find their line of customers in such a line of business to be poorer risks from a credit standpoint.

Moreover, every manufacturer is directly inter-

ested in having the middle men who distribute his product, represent him aggressively; they want their distributors to spend their time, money and brains in promoting the sale of their goods; they want these distributors to flourish, so that the sale of the goods may eventually be increased, and that the credit standing of those in the industry shall be of the best character.

On the other hand, if the manufacturers take no interest in their product after it has left their hands, and are indifferent as to the manner in which it is marketed, it is not at all improbable that from cut prices and unrestricted competition, the conditions surrounding the resale of the goods will become so unsatisfactory and unprofitable that the distributor will decline to further continue to handle such goods, and he will drop its sale, closing to the manufacturer a channel of distribution, and making the public suffer, by rendering it difficult to secure the goods at all.

A case is on record where a large manufacturer of horse shoe nails permitted the resale conditions to become so onerous and distasteful and unprofitable to the distributors, that they ceased handling his goods entirely in one portion of the country by individual consent, and the manufacturer, continuing to follow a policy of indifference with a product of merit, in the course of eight or ten years, found his business had drifted away from him, and had gone to manufacturers whose policy was more in keeping with the progress of the times.

In other cases, where manufacturers assumed an indifferent attitude toward the welfare of their distributors, and where efforts to dictate the resale price

have been made in a half-hearted manner, and not successfully carried through, it has been the practice of the manufacturers to permit the trade to sell at the best prices obtainable, which prices were, in many cases, factory cost, and then to rebate their customers at the end of the year, 7½ or 10%, so that they might not be entirely at a loss by reason of having handled the goods.

Cut Prices Encourage Sale of Imitation Goods.

Where the manufacturers of a line of goods of known reputation continually ignore the repeated requests of their customers for the establishment of a resale price, they can find no fault with them for taking up the sale of competing lines or imitation products, where the chances for profit are greater.

A prominent jobber handled a line of goods of established reputation and identity, but conditions had made it impossible to secure a good profit in connection with the sale of these goods.

The jobber accordingly wrote the manufacturer in question as follows, and we leave it to you to decide if the argument which this jobber presents should not be most convincing:

"The writer has charge of the purchasing department of this business, and it has been his pleasure to purchase from you yearly, thousands of dollars' worth of goods.

"The management is more insistent than ever on handling first-class goods which makes us a fair profit, but unfortunately your line is not profitable with us nor has it been for five or ten years past.

"Now, let us tell you a bit of history.

"We have been laboring for a number of years without very much profit, some years coming through without any profit. Some boom years were quite profitable, while the poorer years absorbed our excess profits of the good year.

"Our average return from the business has been very small indeed. We have suffered from the price cutter, but thus far we have always paid our bills in full, as you well know, while some of the price cutters who have sold our goods at prices which we could not meet, have failed in business and one of the fiercest we had to contend with paid you and other manufacturers thirty cents on the dollar.

"We have charged some of your goods to customers at low prices and no matter how low we have charged them, we have received complaints and have been asked for credit memos which we have been forced to grant, thus not only taking away a reasonable profit, but putting us in a bad light with our customers.

"We do not feel that we care to continue to meet this unfair competition and cut prices and our salesmen no longer have the heart to represent a line which is being cut to pieces. Up to the present writing you unfortunately have not seen fit to protect us by establishing a resale price.

"You can relieve this bad situation in a lasting manner by doing so, and we hope that you will."

The distributors, individually and collectively, claim to be anxious to maintain prices and to earn a good dividend on their capital invested.

This is practically true of a great majority of

them, but unfortunately there are some weak-kneed brethren who either lack backbone or are not informed as to what it costs them to conduct their business, and who find it impossible to maintain a profit-bearing price.

Interest of the Public in Price Maintenance.

There has been expressed by many who are not acquainted with business conditions, the fear that manufacturers, in fixing the resale prices at which their goods should be sold to the consumer, would fix a price which would involve an excessive profit. In the nature of events, and as has been demonstrated by actual prices made, the manufacturers who have fixed resale prices have followed the policy of fixing them at the lowest possible point which would cover the expense of distribution, rather than a high point.

These manufacturers have had to bear in mind the competition of other manufacturers of similar articles, for the fixing of a price on a particular piece of goods does not mean that the manufacturer has a monopoly of any particular class of merchandise, but merely that he is dictating the selling price of a specific type of a general class of merchandise.

Price maintenance does not mean higher prices. It merely means making prices uniform in all places, and at all times. It makes more easy the purchase of goods, for when there is a price dictated by a manufacturer, this price is given great publicity; often the price is printed on the goods, so that the price is uniform in all sections of the country, and to all classes of buyers.

The people in rural communities are placed in a position to purchase the merchandise at the same price as are people in the large cities. Every consumer is assured that they will not be overcharged, and in this there is great measure of satisfaction and comfort for the buyer.

The public is well aware of the fact that they are not compelled to buy a product of any particular manufacturer, and, therefore, when they purchase a piece of trade-marked or patented goods, on which there is a resale price, they know that they are buying it at the right price.

If the manufacturers, wholesalers and retailers were to be prevented from fixing the resale price, it would undoubtedly be found that concerns of great size, which follow the policy of cutting the price on standard goods, and then overcharging on other goods, would, by their unfair methods, put the rank and file of merchants out of business, and then when they had accomplished this result, the field would be open for the charging of higher prices than they could obtain under a fair price maintenance system, regulated by governmental commissions, if it be desirable and practicable.

One is invited to a wide field of public discussion, when the question of the welfare of the average retailer and wholesaler is considered. Will it be held that it is better for the merchandise distributing service of this country to be in the hands of one or two hundred gigantic mail order houses, catalogue houses, and department stores, or whether the country shall continue having its merchandise distributed by the pres-

ent system of 500,000 merchants, all contributing to the prosperity of the country, and to the prosperity of the local communities in the active government, over which they exercise a considerable influence?

Then upon the welfare of these 500,000 merchants, is dependent the business of thousands of manufacturers, with hundreds of thousands of employees, actually dependent upon the results flowing from the prosperity of the merchandising business through the country for their employment and their livelihood.

The centralization of merchandising would undoubtedly result in the centralization of manufacturers under the control of highly capitalized interests.

These remarks barely skim the surface of a question which is of great importance to the entire country.

CHAPTER XVIII.

PATENTED ARTICLES.

On all goods, the manufacture and sale of which is covered by letters patent, the manufacturer operating under statutory grant from the government, is legally empowered to sell such articles with stipulations as to the prices at which they shall be resold, and also to make any other restrictions which may appear to him desirable and reasonable.

The patent law gives to the patentee and his legal representatives for the term herein mentioned (seventeen years) from the granting of the same, exclusive right, privilege and liberty of making, constructing, using and selling to others, to be used, said invention.

Under the laws, the patentees are, as above stated, given the sole and exclusive right to manufacture and use the patented device, and may, if they so desire, sell the same to others with or without restriction.

Patent Rights Are Broad

The principle seems to have been emphatically laid down in a number of decisions, and it now appears to be accepted by the courts of the country that "A patentee may, in selling or licensing his patented invention for sale, impose such conditions as he desires, and that anyone abusing, with knowledge of such conditions, is bound thereby."

The constitutional right under which the manu-

facturer of patented goods operates, as accepted and used by the patent office, declares that if inventive minds are not stimulated by the promise of a substantial reward and protection by the government in the enjoyment of such rewards, inventive minds may fail to produce useful things.

The government, desiring that useful inventions should not be held secret with the originator and his heirs and assigns until the end of time, says to the inventor: "We will protect you absolutely in the right to exclude everyone from making, using or vending the article patented without your permission, provided the possession of this right is yielded at the end of seventeen years."

This, therefore, is a government monopoly, and is protected by the courts in its existence.

A decision in the case of John D. Parks & Son Co., *vs.* Hartman, 153, Federal 24, reads as follows:

"Articles made under patents may be the subject of contracts by which their use and price in sub-sales may be controlled by the patentee, and that such contracts, if otherwise valid, are not within the terms of the Act of Congress against restraint of trade or of Interstate Commerce or the rules of the common law against monopolies and restraint of trade. This is well settled, but:

"The patent grants the exclusive right to make and to sell. The patentee may grant, if he will, an unrestricted right to make, to sell or use the device embodying his invention or may grant only a restricted right in either the field of making, using, or selling to the extent that he restricts these separable rights.

"The article is not released from the domain of the patent, and anyone who violates the restrictions imposed by the patentee, with notices, is an infringer."

It is, therefore, demonstrated that the final result of the patent laws is that the monopoly is a substantial property right conferred by law as an inducement or stimulus to useful invention and discovery, and that it rests with the owner to say what part he will transfer to others, and upon what terms he will make the transfer.

In a recent address Mr. Robert E. Shanahan, of the Bissell Carpet Sweeper Company, said:

"We had occasion some time ago to proceed against an English merchant for cutting our prices, and the court granted us an injunction, and the decision of the English Justice was most sweeping in the recognition it gave to the right of the manufacturer of a patented article to fix the price on his commodity. Justice Wills, of the English Court, in summing up the case, stated as follows: 'The sale of a patented article carries with it the right to use it in any way that the purchaser chooses to use it, unless he knows of restrictions. If he knows of restrictions, and they are brought to his mind at the time of sale, he is bound by them. He is bound by them on this principle: The patentee has sole right of using and selling the articles; and he may prevent anybody from dealing with them at all. Inasmuch as he has the right to prevent people from using them or dealing in them at all, he has the right to do the lesser thing, that is to say, impose his own conditions. It does not matter how unreasonable or how absurd the conditions are; it does not matter what

they are; if he say at the time the purchaser proposes to buy—Mind, I only give you this license on this condition,' and the purchaser is free to take it or leave it as he likes; if he takes it, he must be bound by the conditions. This seems to be common-sense, and not dependent on any patent law or any other particular law."

Decision of Circuit Court of Appeals, Seventh Circuit, April 14th, 1903. (See page 424, Vol. 123, No. 3, "Federal Reporter.")

"The owner of a patent who manufactures and sells the patented article may reserve to himself, as an ungranted part of his monopoly, the right to fix and control the prices at which jobbers or dealers buying from him may sell to the public, and a dealer who buys * * * with knowledge of such reservation, and resells in violation of it, is an infringer of the patent."

Decision of Circuit Court, W. D. Pennsylvania, January 3, 1901. (See page 960, Vol. 105, No. 9, "Federal Reporter.")

"The manufacturer of a patented article has the right in selling same to jobbers for the trade, to prescribe conditions and restrictions to govern its subsequent sale, and one who buys from a jobber with notice of such conditions and restrictions is bound thereby, and for their violation may be treated as an infringer, notwithstanding he takes the goods from the first purchaser unconditionally and without knowledge that said first purchaser signed the agreement, but sells in violation of the known rules of patentee."

A representative license to sell patented goods on

which resale prices are fixed by the manufacturer, reads as follows:

Gem Fence Ratchets are manufactured under United States Letters Patent, and can lawfully be sold only under license from the manufacturer. Bona fide retail dealers may purchase Gem Fence Ratchets from authorized jobbers of the manufacturer at authorized wholesale prices, and a limited and conditional license to resell the actual ratchets so purchased at authorized retail prices will be implied from such purchase, but not otherwise. No license shall be implied from a purchase at less than the retail prices specified herein. Any sale made, except in compliance with the foregoing and under an authority thus created, shall constitute an infringement of the aforesaid patents, and the seller shall be liable to suit for injunction or damages or both, and the ownership of the ratchets, so purchased or sold shall be forfeited to the holder of the patents.

No Gem Fence Ratchets shall be tagged, marked or displayed for sale at less than the following scale of prices, to wit: (Here follows schedule of prices.)

No Gem Fence Ratchets shall be sold or offered for sale to any person at less than the scale of prices prescribed by us.

The manufacturer will not furnish repairs or be responsible for any Gem Fence Ratchets sold at an unauthorized price or by an unauthorized person.

This announcement, dated June 1, 1910, *by the manufacturers under patents of Gem Fence Ratchets.*

GEM FENCE RATCHET COMPANY.

True, the rights granted under the patent law are broad and secure, but they who suppose that they can use the patent law as a subterfuge to control prices are doomed to disappointment.

The government looks for the intent of such plans and if intent to restrain trade can be established the combination will be quickly dissolved.

However, acting alone, the patentee is most secure in his rights as hereinbefore stated.

CHAPTER XIX.

UNPATENTED ARTICLES.

The control of resale prices by the manufacturer, is in many cases necessary as before stated, where through unrestricted competition the distributors are not making sufficient profit even to cover the cost of distribution, and therefore, in order to preserve the channels of distribution in a healthy condition, the manufacturer feels it necessary to make some provision for distributors' compensation.

In many cases, this has taken the form of limited price plans by which the manufacturer dictated the price at which his merchandise should be resold.

The theory formerly was that the manufacturer had the right to sell or to refuse to sell whom he liked, and under such conditions as he saw fit to impose. This was upheld by the State Courts and by the United States District Circuit Courts. These courts held that such plans did not create monopolies and were not in undue restraint of trade, and were valid so long as there was no conspiracy with other manufacturers; that any one *individual* manufacturer acting of his own accord and not in combination with others, had a perfect right to surround the sale of his goods with such restrictions.

On April 3d, 1911, the Supreme Court of the United States handed down a decision in case No. 72, Oc-

tober Term, 1910, Dr. Miles Medical Co., complainant, *vs.* John D. Park & Son Co.

This decision dealt largely with the question of the right of the manufacturers of an unpatented article or a proprietary preparation manufactured under a secret process, to enforce the maintenance of resale prices.

In this connection, the decision is rendered upon the proposition that in the ordinary lines of trade and commerce, if a manufacturer of an unpatented article were permitted to legally enter into and enforce a price maintenance plan in connection with the resale of his goods, he would be granted a monopoly even greater than that given by the United States Government through its patent laws to manufacturers of patented articles.

The Supreme Court stated that it would be granting to such manufacturers the right for an unlimited time, to exercise a monopoly in connection with the sale of their product to the public.

The decision further held that the manufacturer could sell or not as he chose, but that after the manufacturer exercised the right to vend, it did not follow that in case of sales actually made, he might impose upon purchasers every sort of restriction. The Court held, in brief, that after title had passed, all right and interest had passed.

"Thus," says the Supreme Court, "a general restraint upon alienation is ordinarily invalid. The right of alienation is one of the essential incidents of a right of general property in movables, and restraints upon alienation have been generally regarded as obnoxious

to public policy, which is best subserved by great freedom of traffic in such things as pass from hand to hand. General restraint in the alienation of articles, things, chattels, except when a very special kind of property is involved, such as a slave or an heirloom, have been generally held void. 'If a man,' says Lord Coke, in Coke on Littleton, section 360, 'be possessed of a horse or any other chattel, real or personal, and give his whole interest or property therein, upon condition that the donee or vendee shall not alien the same, the same is void, because his whole interest and property is out of him, so as he hath no possibility of reverter; and it is against trade and traffic and bargaining and contracting between man and man.'" Park v. Hartman, supra. See also Gray on Restraints on Alienation, sec. 27, 28.

Contracts in Restraint of Alienation of Movables Void

Quoting verbatim from the decision of the Supreme Court as follows, we read:

"The basis of the argument appears to be that as the manufacturer may make and sell, or not, as he chooses, he may affix conditions as to the use of the article, or as to the prices at which purchasers may dispose of it. But because a manufacturer is not bound to make or sell, it does not follow that in case of sales actually made he may impose upon customers every sort of restriction.

Limitation of Rights

"Nor can a manufacturer by rule or notice, in the absence of contract or statutory right, even though the restriction is known to the purchasers, fix prices for future sales. It has been held by this court that no

such privilege exists under the copyright statutes, although the owner has the sole right to vend copies of the copyrighted production. 210 U. S. 339.

"It will hardly be contended with respect to such a matter, that the manufacturer of an article of commerce, not protected by any statutory right, is in any better position. L. Ch. 354, 2 Ch. 306, 179 Mass. 388. Whatever right the manufacturer may have to project his control beyond his own sales must depend not upon an inherent power incident to production and original ownership, but upon agreement.

"With respect to contracts in restraint of trade the earlier doctrine of the common law has been substantially modified in adaptation to modern conditions. But the public interest is still the first consideration. To sustain the restraint, it must be found to be reasonable, both with respect to the public and to the parties, and that it is limited to what is fairly necessary in the circumstances of the particular case, for the protection of the covenants. Otherwise restraints of trade are void as against public policy.

"The agreements here are designed to maintain prices, after the complainant has parted with title to the articles, and to prevent competition among those who trade in them. The bill asserts the importance of a standard retail price, and alleges generally that confusion and damage have resulted from sales at less than prices fixed. But the advantage of established retail prices primarily concerns the dealers. The enlarged profits which would result from adherence to the established rates would go to them and not to the complainant. It is through the inability of the favored

dealers to realize these profits on account of the described competition, that the complainant works out its alleged injury.

"If there is an advantage to a manufacturer in the maintenance of fixed retail prices, the question remains whether it is one which he is entitled to secure by agreements restricting the freedom of trade on the part of the dealers who own what they sell. As to this the complainant can fare no better with its plan of identical contracts than could the dealers themselves, if they formed a combination and endeavored to establish the same restrictions, and thus to achieve the same result by agreement with each other. If the immediate advantage they would thus obtain would be sufficient to sustain such a direct agreement, the asserted ulterior benefit to the complainant cannot be regarded as sufficient to support its system.

"But agreements or combinations between dealers having for their sole purpose the destruction of competition and the fixing of prices are injurious to the public interest and void.

"The complainant's plan falls within the principle which condemns contracts of this class. It in effect creates a combination for the prohibited purpose.

All Rights Pass With the Act of Selling Unpatented Goods

"Where commodities have passed into the channels of trade, and are owned by dealers the validity of agreements to prevent competition and to maintain prices is not to be determined by the circumstances, whether they were produced by several manufacturers or one, or whether they were previously owned by one or by many. The complainant

having sold its product at prices satisfactory to itself, the public is entitled to whatever advantage may be derived from competition in the subsequent traffic.

"The questions involved were carefully considered and the decision reviewed by Judge Lurton in delivering the opinion of the Circuit Court of Appeals in Park vs. Hartman, supra, and in following that case it was concluded below that the restrictions sought to be enforced by the bill were invalid, both at common law and under the act of Congress of July 2, 1890 (the Sherman Act).

"So far as this decision is an interpretation of the Sherman law, it touches only limited price schemes which concern articles shipped from State to State. That is to say, if there was nothing more to it, a manufacturer doing business wholly within the State of Illinois could make limited price contracts with the wholesalers and retailers of that State without being affected by this decision at all. The opinion, however, closes with the statement that the price restrictions are also invalid at common law. That makes it affect the business done within the States as well."

In other words, the decision of the Supreme Court holds that after a manufacturer sells the goods, it is desirable that there be the freest play of competition so that the public may enjoy such benefits as may result from such free play of competition.

Quoting verbatim from this important decision:

"It (this manufacturers' resale plan) in effect, creates a combination for the prohibited purposes. No distinction can properly be made by reason of the particular character of the commodity in question. It

is not entitled to special privilege or immunity. It is an article of commerce, and the rules concerning the freedom of trade must be held to apply to it. Nor does the fact that the margin of freedom is reduced by the control of production make the protection of what remains, in such a case, a negligible matter. And where commodities have passed into the channels of trade and are owned by dealers, the validity of agreements to prevent competition and to maintain prices is not to be determined by the circumstances whether they were produced by several manufacturers or by one, or whether they were previously owned by one or by many. The complainant having sold its product at prices satisfactory to itself, the public is entitled to whatever advantage may be derived from competition in the subsequent traffic."

As far as a resale price on unpatented goods dictated by the manufacturers is concerned, many manufacturers consider that the price cutters are the ones who restrain their trade in a manner which is most unfair.

One says: "It is that kind of restraint that we have contended against for 16 years."

The exploitation of a manufacturer's goods at less than a living profit for the sake of selling other goods works an unjust restraint of trade that we think will not be sustained on the score of public policy when that is made a definite issue before the Supreme Court.

But, under existing conditions, a manufacturer of unpatented goods who is engaged in interstate commerce and desires to control the resale price of such goods must proceed with circumspection. By estab-

lishing the relation of principal and agent between himself and those who distribute his product, he can, within proper limitations, exercise the desired control over the selling price of his goods. Commercial lawyers have displayed much ingenuity in devising consignment contracts whereby the relation of principal and agent or bailor and bailee is preserved without largely departing from the usual procedure of outright sale. It seems quite within the range of possibilities that a feasible selling system of this sort might be devised. But if not, the manufacturer may still have his counsel consider a system whereby, without any liability to observe the manufacturer's announced resale prices, the merchant who does do so shall be rewarded by a gift or allowance at stated periods, which gift or allowance shall be withheld from those who do not observe the manufacturer's resale prices. Or the manufacturer may adopt the somewhat innocuous plan of giving an express warranty on each article of his manufacture—the same to be conditioned upon the purchase of the article at the authorized price and to be non-effective if purchased from other than a regular dealer at other than the authorized price.

But what is really needed is a Federal law which will give the manufacturer of unpatented articles the right to control their resale price so long as he does not act in concert with other manufacturers. Certainly a law of this sort could be drawn in such a way that it would not serve as a cloak for monopoly. At the present time it is difficult, if not impossible, to distinguish between the individual who seeks to exercise a perfectly proper control over his own business

and those who conspire towards monopoly and against the public welfare.

The decision of the Supreme Court in this Dr. Miles Medical Company case does not affect the rights of a patentee to control the resale price of his patented article and will have no effect on his policies.

CHAPTER XX.

METHODS OF RESALE.

A prominent manufacturer of patented goods, marketing his product under resale conditions with rebate withheld conditioned on price maintenance, requires all his distributors that they must not sell or offer for sale, either directly or indirectly, at less than stipulated licensed prices; must not give goods away as premiums, nor shall any other merchandise, trading stamps, negotiable paper or any other inducements be offered as an incentive to promote their sale; must pay no commissions on sale of goods in any form, except in lieu of a regular salary to salesmen whose services are employed regularly and exclusively; must not sell shop-worn, damaged or second-hand goods, except on special license to be granted on application; dealers, parties to the contract, may borrow goods, but no sales may be made by one contract dealer to another at less than the resale prices.

The manufacturers of patented articles may affix a license of sale, similar to the one used by the Gillette Safety Razor Company, which is as follows:

Notice.—This razor is only licensed by us for sale and use when sold to the public at a price not less than Five Dollars. No license is granted to sell it at a lower price than Five Dollars or to use it if sold at less than such price. Neither must it be included in a

combine sale with other goods, nor used as a premium upon the sale of other merchandise. Any transfer or sale in violation of these conditions, or its use when so sold, will constitute an infringement of our United States letters, patent Nos. 775,134, 775,135, *under which this razor is made, and all parties selling or using it contrary to the terms of this license, will become infringers of said patents, and will render themselves liable to an injunction and damages. The limited license to sell above set forth is good only so long as this label remains upon the package, and erasures or removal of this label will be construed as a cancellation of the license. A purchase is an acceptance of these conditions. All rights revert to the undersigned in the event of any violation thereof.*

GILLETTE SAFETY RAZOR CO.,
Owners of said patent.

Methods of Controlling Resale Prices by Manufacturers of Unpatented Articles.

Prior to the decision of the Supreme Court of April 3rd, 1911, there were many very satisfactory plans for controlling the resale price of unpatented articles.

There have been many forms of agreements drawn in the past, some withholding a rebate which was payable every three or six months on condition that the merchant had not cut the price, and others involving other penalties for violation.

One particular manufacturer advised the trade that he desired his goods sold at certain fixed prices

with the intent of securing for the jobber a fair profit on his goods. He further stated that while he had no rebate withheld, the failure of the jobber to strictly maintain his prices to the retail trade would be sufficient evidence to him that the profit is more than the jobber deserves and that the quotations shall be promptly withdrawn. In view of the present attitude of the Courts, however, they cannot be recommended in practical service unless great caution is shown in ENFORCING the maintenance of prices.

It will be recalled that Justice Holmes in his dissenting opinion states, that "By a slight change in the form of the contract of the Dr. Miles Medical Company the plaintiff can accomplish the result (the fixing of resale prices of unpatented articles) in a way that would be beyond successful attack. If it should make the retail dealers also agents in law as well as in name and retain the title until the goods left their hands, I cannot conceive that even the present enthusiasm for regulating the prices to be charged by other people would deny that the owner was acting within his rights."

Also considering the question of resale plan, if the manufacturer has direct relations with the wholesaler, it is believed that educational work along the line of securing a fair price has progressed sufficiently to dispense very largely with the need of written agreements.

A manufacturer's account is valuable to a wholesale or retail dealer. The manufacturer could express his preference that a certain price should be secured.

This he could do even though he had no legal con-

trol over the merchant's resale policy after he sold the goods, or as the Courts state, after the manufacturer has exercised the right to vend.

Now, the Supreme Court still holds that it is a seller's privilege to exercise or refrain from exercising the right to sell.

Therefore, why can the owner not decline to exercise the right to vend in case any purchaser may be distasteful to him for any reason whatsoever, or, for no reason at all.

We cannot see why it would not be practicable for a manufacturer to express his preference to the trade as to the prices at which they should sell his goods.

A large number of manufacturers have selling plans which call for a select list of dealers, only one or two in a territory, and refuse to sell to all others, stating that they have very satisfactory connections already formed and do not see their way clear to increase the number at the present time.

Acting along the same lines, exercising the right to sell or not as they choose, why could not such a manufacturer handle a price cutter by telling him that he no longer saw fit to use him as an agent for distributing his products?

In our opinion, this could be done. Further, *it has been done,* and with successful results.

Subterfuges Resorted to by Seller to Cut Price on Restricted Goods.

As previously stated, the supervision of the manufacturer over the resale price of his product, has been

rendered necessary largely through competition either of an unintelligent or vindictive character, and the same reasons cause some to violate the resale prices established by the manufacturers.

A law or regulation against any improper act cannot possibly give the assurance that the act will not be committed, else the millenium would be with us.

There are just as many different ways to violate a contract or to cut prices as there are dishonest men to conceive them.

We do not think it is incumbent on scoffers to speak about a restricted price system as placing a premium on dishonesty, for is not a restricted price system merely making the few dishonest ones stand out more clearly in the light, and enabling the honest merchants, who are in the vast majority, to see just what men are casting discredit upon their calling?

Of course, those who are dishonest should be properly dealt with by the manufacturer so that they may know that their actions are meeting with the hearty disapproval of their fellow merchants and the manufacturers whose goods they distribute.

One desiring to employ a subterfuge may ship a larger quantity of the goods than he bills; he may give the buyers some cash out of his pocket; he may sell other goods at cost or less in order to influence the sale of the goods on a resale basis; he may do these, or resort to other crooked practices to violate his contract with the manufacturer, and it is not to be supposed for a moment that the establishment of a resale price and even its rigid enforcement by the manufacturer will make dishonest men honest. In fact, the possibili-

ties for employing a subterfuge to cut prices are limited only by the shrewdness, brain power and crooked tendencies of those employing them.

It is certain, however, that if the manufacturer evidences his sincerity and his determination to honestly and rigidly enforce the provisions of his contract, he will have little trouble with those who by one subterfuge or another attempt to break down his prices.

A Query.

A manufacturer of a patented article says:

"If I establish a resale price on my goods, will not the trade handle the imitation article underselling the genuine?"

Answer: The trade is not anxious to force salesmen to spend time uselessly in arguing the merits of an imitation if a profit can be made on the genuine.

Possibly the principal reason headway has been made in the sale of the imitation is because of the unprofitableness of the genuine article.

With an assured profit of a proper amount (which is perhaps 5% net on sale over the cost of conducting business), the trade would surely be glad to handle the original and genuine article, to the exclusion of spurious imitations.

CHAPTER XXI.

LOYALTY.

From time to time, manufacturers have sought to increase the loyalty of wholesale and retail merchants to their line of goods by giving a rebate of 2½ or 5%, provided the merchants would maintain strictly the resale price established and confine their purchases to their line exclusively.

A Premium on Loyalty

For instance, they have established a resale price of 70% discount, and have allowed a profit of 10 and 5% to those who will sign a statement to the effect that they have strictly maintained stipulated prices on the patented goods covered by the resale arrangement. Then they have had a separate rebate of from 2½ to 5%, and gave this to the merchant only on condition that he promoted the sale of their goods exclusively.

The basis of such an offer of a special rebate based on exclusive sale, is at once a reasonable one and also a selfish one. The manufacturer feels that he is better represented by the jobber or retailer who confines his sale to goods of his manufacture.

On the other hand, can it not be thought that the manufacturer uses this special rebate as the cheapest method of keeping the other fellow out of the market. Does it not infer weakness and does it not indicate that

the manufacturer is greatly afraid of his competitor when he must offer a special rebate for sole consideration instead of allowing the merchant to continue to give him the opportunity of purchasing most largely from him merely because of the quality of his goods and the manner of treating the trade, his progressiveness, his prestige and his other points of superiority?

Some combinations of manufacturers who have attempted to exercise the control over the market, have gotten into trouble with the Government very largely on account of this loyalty proposition. They have used the loyalty clause to force unwilling manufacturers to come into their combination. They have said to the jobbers or retailers: "You may have our goods at rock bottom prices, provided you do not buy from the people outside of our combination. If you do buy from these outside people, we will either not sell you at all or we will charge you 5 or 10% more for the goods."

The Government will not stand for any such proposition. It is un-American and unfair. It savors very largely of the nature of a conspiracy or boycott, and, moreover, being based on utter selfishness, it has no place in the modern business world.

Viewing the matter from another standpoint, the manufacturer who establishes a resale price wants to be assured that the merchants will not abandon his line because a competitor—possibly a manufacturer of an inferior piece of goods—gives a little better price and the merchant uses the good conditions created by the resale plan to make a fair market price for the

inferior goods and to make for himself a little better profit than he could on the genuine goods.

The attitude of the Government or the opinion of business people cannot and will not prevent a manufacturer from showing appreciation of absolute loyalty of a merchant to his line of goods. Nothing said in this connection hereinbefore is retracted, but if a manufacturer sees fit to show appreciation of loyalty he should certainly do it, but he cannot and must not attempt to employ any illegal measures to hold the trade of any one on his goods.

Another Query Answered.

One manufacturer says: "Will competitive manufacturers benefit to my detriment if I put a resale price into effect and they do not?"

Answer: If a manufacturer puts a resale price into effect on his goods, it demonstrates to the public that their value is fixed, and that because of the stable price they are entitled to respect. A manufacturer with a fixed price need pay a decreasing amount of attention to the action of competitors, because of the satisfactory co-operation on the part of the trade.

His customers, who are obviously in business for the purpose of making money, are securing a satisfactory profit from the sale of the goods.

The thousands of salesmen employed by his customers throughout the country are in many cases paid in proportion to the profits derived from the business secured, and they are, therefore, enthusiastic regard-

ing those goods which pay a good profit, and quite indifferent to the sale of unprofitable goods.

The merchants and their salesmen will have no incentive to push competitive or imitation goods, which require extra time to induce a customer to purchase, and in the sale of which no profit is guaranteed.

Thus, thousands of wholesale and retail merchants and the salesmen of each will enthusiastically extol the merits of a quality product, sold under a profit guarantee contract. What better advertisement could be had at any price?

Reciprocity or Co-operation Between Merchants and Manufacturers.

Reciprocity in the sense of the word as here used means, "done by each for the other."

It means that where manufacturers confine the distribution of their goods through certain classes of merchants and protect them in the enjoyment of a fair margin of profit, those merchants should give such manufacturers in return a reasonable degree of loyalty through actual purchase of goods from them and should make strong efforts through their sales department in favor of the goods of such manufacturers.

The true meaning of reciprocity is that—you will help me to do what I want in the interest of my affairs and I will help you in the interest of your affairs.

Always where merchants know that certain manufacturers are pursuing a policy friendly to them, it would be just as well if they gave manufacturers

pursuing an unfriendly policy no consideration at all, regardless of their prices or anything else, it being enough for the merchants to know that it is not to their interest to build up this kind of manufacturers, by taking the surplus that they may desire to dump on the merchants after they have sold the major portion in a way unfavorable to their interests.

The distributors should, for their own self-preservation, not give business to the manufacturers who refuse to recognize them as entitled to protection in connection with the sale of their goods, this protection being both in the nature of not soliciting distributors' customers direct and by guaranteeing to the distributor a fair profit.

Of course, it is advisable that the unfair manufacturer should be convinced of the error of his way, and this can best be done by individual merchants taking action according to a fixed policy and by not being penny-wise and pound-foolish by patronizing manufacturers whose goods cannot be profitably distributed.

Another Query.

A manufacturer says: "Yes, I would be willing to enter in a resale price contract, but would it not entail an advertising expense of $40,000 or $50,000 per annum? All the manufacturers I ever heard of who fixed a resale price had advertised heavily, and I think it absolutely essential."

Answer: If your goods are sold on a profit guarantee contract, you will get all your advertising free. Thousands of wholesale and retail merchants and their

salesmen, paid on a profit-sharing basis directly or indirectly, will push your goods and impress upon the minds of their customers and the ultimate consumer the fact that your goods are of a standard quality and at a standard price. The goods are worth it, says the salesman, for they sell at this price the country over, and the most discriminating buyers demand them on account of the fact that their quality is always uniform. The factory gets a fair price for the goods, and is always anxious to improve the quality.

CHAPTER XXII.

BENEFITS OF RESALE PLAN.

Price competition ceases and trade is permitted to flow into its natural channels. Those who are preferred by the buyer secure the business without concessions of any kind.

Mr. R. E. Shanahan, of the Bissell Carpet Sweeper Company, Grand Rapids, Mich., said recently in addressing the convention of the American Hardware Manufacturers' Association:

"From my point of view, the policy of price maintenance or restricted prices, is so broad in scope, so far reaching in beneficent results, as to be worthy of the thoughtful consideration and earnest support of every manufacturer, jobber and retailer in this country. From an ethical standpoint, price maintenance typifies the best moral elements in the conduct of business; it is fundamentally sound in principle and pre-eminently just and beneficent in practice, fostering and stimulating as it does the best ideals in commercial life; promoting character in business, and securing to its devotees the confidence of the public, which is in itself a valuable commercial asset.

"There are certain inevitable laws of trade that affect in common the manufacturer, the jobber and the retailer, and price maintenance recognizes the basic principle of commercial justice and equity, namely,

that the manufacturer, jobber and retailer, in the process of distribution, are entitled to a fair living profit in the sale of any commodity. Experience has taught, and I believe you will all bear me out in this statement, that the maintenance of prices will more nearly insure the contributing to its sale. Not only will the maintenance of prices insure the high quality of an article, but also its very permanence on the market as well."

Fair prices keep up the standard and reputation of an article. The public knows that it costs money to make a good article, and are, therefore, willing to pay the price.

A Uniform Price Means Uniform Quality.

When prices are continually changing it is a positive sign that if the articles had been properly priced in the first place there would have been no necessity of reducing the selling prices.

The reduction of a price usually necessitates retrenchment in the cost of manufacturing. This means a cheapening of quality, a condition that would never happen with an article properly protected by a strong resale price.

Merchants in general fully approve of established prices and show their appreciation of a policy which protects them in the enjoyment of profit both by being required themselves to adhere to fixed prices under all circumstances, and also by having a guarantee that all others must do likewise.

It is easier and less expensive to conduct business with limited price schedules. Goods may be sold more

quickly, as the usual bantering in price and delay in placing orders by the customer are dispensed with.

All merchants are on an equal basis in selling, and if by some special deal some one merchant obtains an extra concession, it is not *reflected in the selling price,* as is usually the case on an open market, to the consequent demoralization of prices.

It is beneficial to the customer. He has it fixed in his mind that there is only one price, and that he has bought his goods right.

The trade has several sources of supply open, equally advantageous.

It gives salesmen time to exploit new goods and talk quality instead of arguing price, saving time on the road and annoyance in the house.

Facilitates Conduct of Business.

It compels those who have no desire to make money to discontinue their policy of demoralization, to the end that those who want to attain success may do so with some degree of pleasure and comfort, to an extent that will at least justify the energy and capital required.

The detail work involved in enforcing resale prices may be considerable at first, but when it is demonstrated that the manufacturer is sincere and earnest in the enforcement of the plan, the detail work will gradually diminish, and by its smooth operation the cares of business will be lessened, and the presence of such a plan known only by its wonderful

results in securing and holding the trade of the best class of distributors and consumers.

Opinions of Some Manufacturers.

A manufacturer whose product is of the highest quality, in speaking of the efficacy of the resale system a short time ago, said:

"Previous to seven or eight years ago, the commodity which I manufacture had become nothing more or less than a football. It was kicked around, and it ought really to have been thrown out of everybody's shop.

"There was no profit to anybody in the line. Manufacturer, jobber and retailer were all disgusted with conditions.

"We worked along endeavoring to find a solution. We did everything, I believe, that manufacturers or merchants should have done, yet we failed to make our goods profitable either to ourselves or to jobbers or retailers.

"After many conferences, we decided to give the plan of dictating selling prices to wholesalers and retailers a fair trial. This policy has now been in force for seven years.

"The plan, as you know, is the regular resale plan which I have since ascertained is followed so successfully by a large number of manufacturers. So far as the maintenance of our prices is concerned, I am delighted to say to you that in the canvass of over two years among our five hundred customers, we find that

it meets with the approval of all of them except one, and that one man wanted his profits doubled.

"I believe that the encouragement and thanks which we have received from the trade and the better profits which we have made, justifies us in continuing to market our product, using the same selling policy which has created these good conditions to-day."

Said another large manufacturer:

"A bit of suggestive history was woven into the . . . industry during the past twelve months—the kind that promises to repeat itself because of its basic properties, that stand for protection within reasonable limits to the local jobber, as well as an assured profit on sales of our . . . under terms and conditions of our resale and premium rebate systems that were inaugurated and became operative recently.

"This departure from go-as-you-please methods previously in vogue marked a new era in our business and has received the stamp of approval by co-operation on the part of the trade generally throughout the country. This system of marketing our product will be continued on the wholesome principle underlying all commercial enterprises, that a fair yield is expected and should be realized from the merchandising amount invested.

"We recognize the fact that in conserving the interests of our customers we are consulting our own. We do not underestimate the value of our principal asset—REPUTATION—the best in business that began and continues with the company since its inception seventy odd years ago. This thought leads to the central idea of QUALITY, the keystone of the arch of our

establishment, resulting from the application of inventive genius and the highest type of machinery and mechanical skill obtainable.

"We believe, for reasons stated in the opening paragraph of this communication, we are brought into more profitable touch with our jobbing friends, whose loyalty to the line is appreciated and whose expressed views will always be respected in maintaining alliance to our mutual advantage."

APPENDIX.

THE LAW AT HOME AND ABROAD.

Many business men have never taken the trouble to read the text of the Sherman Anti-Trust Law.

Four important sections of it read as follows:

Text of Sherman Anti-Trust Law.

"Sec. 1. Every contract, combination in form of trust or otherwise, or conspiracy, in restraint of trade of commerce among the several States, or with foreign nations, is hereby declared to be illegal. Every person who shall make any such contract or engage in any such combination or conspiracy, shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by a fine not exceeding five thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court.

"Sec. 2. Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a misdemeanor, and on conviction thereof, shall be punished by fine not exceeding five thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court.

"Sec. 3. Every contract, combination in form of trust or otherwise, or conspiracy, in restraint of trade or commerce, in any territory of the United States or of the District of Columbia, or in restraint of commerce between any such Territory and another or between any such Territory or Territories and any State or States or the District of Columbia, or with foreign nations, or between the District of Columbia and any State or States or foreign nations, is hereby declared illegal. Every person who shall make any such contract or engage in any such combination or conspiracy, shall be deemed guilty of a misdemeanor, and on conviction thereof, shall be punished by a fine not exceeding five thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court.

"Sec. 4. Any person who shall be injured in his business or property by any other person or corporation by reason of anything forbidden or declared to be unlawful by this act, may sue therefor in any credit court of the United States in the district in which the defendant resides or is found, without respect to the amount in controversy, and shall recover three fold the damages by him sustained, and the costs of suit including a reasonable attorney's fee."

The Canadian Law.

In Canada the legislation is quite liberal in protecting the interest of the public, and, at the same time, operating in such a manner that the interests of manufacturers and merchants are properly conserved.

The situation in the Dominion of Canada with

respect to the regulation of contracts, agreements, or combinations which are designed to have the effect of fixing the price of any article of trade or commerce is much further advanced and in far better condition than in these United States.

Liberal Canadian Legislation.

In 1910 there was passed in the Senate and the House of Commons of the Dominion of Canada an Act known as the "Combines Act."

Briefly, this permits price agreements so long as the agreements do not operate to the detriment of the consumers and producers within the Dominion.

A short statement of the character and scope of the act is given as follows:

The Act is entitled, "An Act to provide for the investigation of Combines, Monopolies, Trusts and Mergers."

A "Combine" is defined as any contract, agreement, arrangement or combination which has, or is designed to have, the effect of increasing or fixing the price or rental of any article of trade or commerce or the cost of the storage or transportation thereof, or of restricting the competition in or of controlling the production, manufacture, transportation, storage, sale or supply thereof to the detriment of consumers or producers of such article of trade or commerce and includes the acquisition, leasing or otherwise taking over, or obtaining by any person to the end aforesaid, of any control over or interest in the business, or any portion of the business, of any other person, and also includes what is known as trust, monopoly or merger.

Manner of Filing Complaint

Where an agreement has been entered into among certain manufacturers or dealers of a commodity and six or more persons, British subjects resident in Canada and of full age, are of opinion that such a combine exists, and that prices have been enhanced or competition restricted by reason of such combine, to the detriment of consumers or producers, such persons may make an application to a Judge for an order directing an investigation into such alleged combine.

This application shall be accompanied by a statement setting forth:

(a) The nature of the alleged combine and the persons believed to be concerned therein.

(b) The manner in which the alleged combine affects prices or restricts competition, and the extent to which the alleged combine is believed to operate to the detriment of consumers or producers.

(c) The names and addresses of the parties making the application and the name and address of one of their number or some other person whom they authorize to act as their representative for the purposes of this Act and to receive communications and conduct negotiations on their behalf.

(d) The application shall be accompanied by a statutory declaration from each applicant declaring that the alleged combine operates to the detriment of the declarent as a consumer or producer and that to the best of his knowledge and belief the combine is injurious to trade or has operated to the detriment of

consumers or producers in the manner and to the extent described, and that it is in the public interest that an investigation should be had into such combine.

The Judge then arranges for a preliminary hearing of the applicant for complete investigation, and if upon said hearing the Judge is satisfied that there is reasonable ground for believing that a combine exists which is injurious to trade or which has operated to the detriment of the consumers or producers, he may then direct an investigation under the provisions of the Act.

A Board is then appointed consisting of one who shall be recommended by the person upon whose application the order has been granted, one on the recommendation of the person named in the order as being concerned in the alleged combine, and the third on the recommendation of the two members as chosen who shall be a Judge of a Court of Record.

This Board of three shall expeditiously, fully and carefully inquire into matters reported to it and all matters affecting the merits thereof, including the question of whether or not the price or rental of any article concerned has been unreasonably enhanced, or competition in the supply thereof unduly restricted.

Board of Inquiry.

They then shall make report to the Minister, which report shall set forth the various proceedings and steps taken by them, including such findings and recommendations as in the opinion of the Board are in accordance with the merits and requirements of the

case. In short, it is incumbent on the applicant representing the buyers to convince the Judge that the prices have been unreasonably enhanced, and it is incumbent on the representative of the sellers to demonstrate to the Judge that the prices are fair and reasonable and that the competition has not been unduly restricted.

Thus it is apparent that the side which is able to convince the Judge that their contention is right, will be the one which shall be recommended in the report to the Minister of Labor, as the decision of the Board.

If the seller is found to be guilty of unduly restraining trade or commerce in relation to any such article; or if unduly preventing, limiting or lessening the manufacture or production of any such article; or of unreasonably enhancing the price thereof; or of unduly preventing or lessening competition in the production, manufacture, purchase, barter, sales, transportation, storage or supply of any such article, he shall be immediately ordered to abandon the combine or agreement and the order to dissolve such combination shall be duly published in the Canada *Gazette*.

Penalty if Guilty.

If, however, he thereafter continues so to offend, he is guilty of an indictable offence and shall be liable to a penalty not exceeding one thousand dollars and costs for each day after the expiration of ten days, or such extension of time as in the opinion of the Board may be necessary, from the date of the publication of the findings of the Board during which he shall so continue to offend.

APPENDIX

The German Law.

In Germany, the tendency is toward fair regulation of reasonable efforts on the part of merchants and manufacturers to co-operate for mutual protection and preservation.

German Law on Combinations.

Under the German law there may be a selling agreement and a number of manufacturers or producers or sellers of a certain article or class of products may agree not to sell their product below a specified minimum price agreed upon by all the member of the combination, and changed from time to time in accordance with the varying cost of production and general requirements of the market.

Such combinations are recognized by Section 241 of the "German Civil Code" so that agreements to refrain from lowering prices are not illegal in that country. They are, however, subject to investigation, and legal control so that their fairness may be maintained and that the public may be properly protected.

It is to be hoped that at an early date the American public will recognize the benefits to be secured from a fairer attitude toward reasonable and right regulation of business, so that better conditions may prevail. It is undeniably true, that in America, as in every other country, the interests of the business men and the public are so closely interwoven that they are one and the same, and that the business interests of the country cannot suffer without affecting the prosperity and welfare of the general public.

It will be interesting to read a few extracts from the decisions of Germany's Imperial Supreme Court from which can be gathered the rights and duties of business combinations rather than in the statutory law which is silent on the question.

The Court, after acknowledging that foreign countries (mentioning authorities in France, Russia and the United States) follow contrary principles, bases its opinion that it is to the benefit of the public that prices should be kept in a normal state, on the following argument:

"If in any branch of business the prices so decline that a profitable trade is made impossible thereby, or that the trade is seriously endangered, the crisis at the start is not only injurious to the individual person, but also from a national economical point of view, and it lies, therefore, in the interest of the whole that the inadequately low prices in a certain branch of business should no longer exist. Therefore, formerly and at the present time, legislators have aimed to increase prices of certain products by inaugurating protective tariffs.

"It, therefore, cannot be looked upon as generally contrary to the interests of the whole, if manufacturers of a certain article form a cartel in order to prevent, or to modify, the mutual underbidding and the decline of prices for their products caused thereby; on the contrary if the prices are continually so low that the manufacturers are threatened with financial ruin, their forming a cartel is not only to be looked upon as a justified manifestation of self-preservation, but also as an act which lies in the interest of the whole.

APPENDIX

"The forming of syndicates and cartels in question, therefore, has been designated by prominent economists as a means which, if reasonably applied to national economics is especially adapted to prevent unnatural over-production which yields no profit resultant catastrophies."

PART II

COST OF DOING BUSINESS

COST OF DOING BUSINESS

The ever-increasing fierceness of competition has demonstrated the necessity for the most careful management of business enterprises. Profits are too finely cut to permit a continuance of rule-of-thumb methods and greater concentration is necessary to obtain greater accuracy. Careful calculation plays a most important part in business to-day and success depends largely upon the inauguration of better methods all around, involving a means of securing clear, concise and accurate information relative to the condition of one's business.

This subject of the cost of doing business is of prime importance, and while there is nothing essentially new in the article herewith presented, perhaps it will serve to make business men think a little more deeply of the obligation due them by the business in which they are engaged.

The increasing cost of selling a given amount of goods has forced business men to look into the matter very thoroughly, and, if possible, find some remedy for the present conditions, although it is admitted that many do not understand the full significance of the question.

Salesmen's Salaries Higher

Efficient salesmen are demanding and receiving a larger remuneration. There is only so much business obtainable. It is hard to increase the volume, and if one merchant through aggressive measures does increase his volume, this will only be temporary, as others will adopt similar aggressive measures, which will result in an equalization of the volume of business.

Every one should know in a general way what his salesmen cost to sell goods, what they cost in percentage, and then compare his house costs.

Salaries of Principals.

Salaries of Principals

Some firms or corporations, where there are three or four principals only, have been in the habit of charging little or nothing to the expense account for the salaries of these principals.

Some cases have come to our notice where but $1,200 or $1,500 a year has been charged off for those who would most assuredly not have accepted any such remuneration working for others, but who saw fit to incorrectly minimize their expense account by charging off such inadequate amounts, relying upon the profits at the end of the year for their full remuneration.

In most cases such principals have been the most active men in the house; they have been Executive Heads, Buying and Sales Managers and General Managers.

Sometimes they have sold a large amount of goods

in connection with their other duties. One particular case comes to mind where a member of the firm sold $60,000 worth of goods per annum, and in addition to that did all the buying for the house. No salary whatever was charged off either for work in the house or on the road.

Surely for this work others would have been paid. Therefore, why not charge off some proper amount instead of having a member of the firm do this work and charge nothing for services rendered. How would such a partner fare if there were several inactive partners sharing equally in the profits?

Salaries for Principals Should Be Charged

Possibly a fair average estimate of what amount as salaries of active principals should be charged off would be double that of any other person in the employ of the house.

The principals not only furnish experience and expert guidance, but never-ending responsibilities and anxieties devolve upon them, and on their policies and actions depend the profit or loss shown by the business.

Where the principals do not actively participate in the conduct of the business others are well remunerated. Their salaries are, of course, charged off to the expense account.

Rent.

Should Rent Be Charged if Firm Owns Building?

It is rather startling that there is any diversity of opinion regarding such an important item as rent.

Some firms have stated that they were under trifling expense, and when rent was mentioned have said, "What? Rent! Why, we pay no rent! We *own* the building. Of course, we charge off taxes and repairs to the expense account, but we have a great advantage over competitors in that respect, for they must pay rent."

Surely, if they would not have occupied the building it would have been rented at market prices, and in our opinion they should charge off every year the amount which they could secure for the property if it were rented to another party, probably 8 per cent. on the market value and repairs and taxes and water rent.

Interest on Monies Invested.

Charging interest on capital being a mooted question, it is probably well to present some of the various phases of the subject, as follows:

Interest on Capital

One may readily secure the current rate of interest on capital by investing in securities of such a character as to preclude any appreciable chance of losing the principal.

What a person expects to gain who embarks in business, superintending the employment of his own capital, is much more than the rate of interest.

The rate of profit should be far in excess of the rate of interest.

The first and prime duty of the business, therefore, is to earn the current rate of interest.

This should be without regard to dividends, for

Unjust Claims, Unexpected Losses or Depreciation Would Soon Wipe Out Such a Narrow Margin.
See page 244.

a sale is really made at less than cost, if not equal to or in excess of the invoice cost plus operating expenses, including interest on capital.

If interest on capital is included when making up the cost, and the year is not a good one, the dividends will at least be guaranteed if sales have not been made at less than cost; and by cost is meant invoice cost plus operating expenses, including interest on capital.

Of course, losses must surely result in years of depression when sales are reduced to a minimum and the ratio of expenses to sales rises out of all normal proportions.

The surplus profit earned is partly in the nature of compensation for the risk involved. He who enters into business always exposes his capital to some, and in many cases to very great, danger of partial or total loss.

For this danger he must be compensated liberally; otherwise, of what use would it be to incur it?

Writing on the subject of "Profits," the eminent scholar, John Stuart Mill, said: "The gross profits from capital, the gains returned to those who supply the funds for production, must suffice for three purposes:

"First—They must afford a sufficient interest on capital.

"Second—They must afford a sufficient indemnity or surplus earning for the risks involved.

"Third—They must afford a proper and adequate remuneration for the labor and skill required on the part of the principals."

These different compensations may be paid to the

same or different persons. It is thus clearly demonstrated that John Stuart Mill held the following opinions:

First—That it is essential to charge interest on capital to provide for him who furnishes it and who may not personally undertake the risks and trouble of the business.

Second—That the surplus earnings may readily be distributed to those entitled to them.

Third—That the salaries of principals should enter into the expense account in order to present a true statement of net earnings.

Necessity for Charging Interest on Capital

If a firm were to be started by men with a thorough knowledge of the business and but little capital they would be forced to borrow money and pay interest on it. To such a firm with inadequate capital, the charge of interest on capital is made through the necessary charge of the interest on the borrowed money, which constitutes their capital.

Suppose a case where two firms are doing an equal business, each using $100,000 capital—one has cash capital of the full amount, the other has but $40,000 cash—and borrows $60,000 charging interest on the borrowed money to the expense account.

Both concerns must earn a profit on the business done. If the concern with owned capital ignores the item of interest on capital, will they not fail to show as satisfactory a result at the end of the year as the other house?

In many cases where the owners of a business desire to retire and sell the business to old and trusted

employees—a certain amount of capital may be allowed to remain in the business, the new purchasers paying the interest on the amount to the former owners.

In order to make any headway, and to ultimately make a success of the business and complete its purchase, it will be absolutely necessary to consider interest on capital as an expense and to include it when figuring overhead or fixed charges.

In this case the one who furnishes the capital is remunerated by the interest which must be paid him, and the difference between the interest and gross profit may be laid aside as a surplus account for the purchase of the business.

Even if such men had started with plenty of money they could have invested it in bonds or mortgages and secured interest, leaving the work of management to others and with little if any chance of losing their capital.

In partnership, when the capital is not equally contributed, it is usual and customary to allow each partner interest on the amount of capital to his credit before any division of profits is made.

The most successful and conservative business men hold that interest should be charged upon capital, and that this should be charged to the expense account and not to the interest account.

A fair plan would be to charge at least 4 or 6 per cent. interest on capital to the expense account as a minimum amount for the capital to earn. This precaution will provide for at least this return, and the excess profit can readily be taken care of in dividends.

In arriving at the true cost of merchandise by the only proper method, viz., adding the overhead expense to the invoice cost, the cost will be too low and consequently incorrect if interest on capital is omitted. The expense account should be forced to bear the interest on all monies invested in every case.

This would include interest on capital, surplus and borrowed money.

Interest on Borrowed Money

It is almost universally recognized that interest on borrowed money should be charged to the expense account, for in many cases it would not be necessary to borrow money were it not to accommodate some delinquent customers.

Bad Debts.

A charge of the average percentage of losses should be made to the expense account to take care of bad debts, as it is necessary to include this in the cost to make the results satisfactory at the end of the year.

If the important item of bad debts (which are constantly with us) is not considered as an element of overhead expense, how is the loss to be met? Is it not far better to meet the inevitable loss by anticipating it when making selling prices, than by suffering a decrease in gross profits?

The percentage of losses varies in different businesses from 1-10 of 1% to 1½ or 2%. Some houses claim to have practically no losses from bad debts, but the claim in such cases is usually based on false pride and not on facts.

RECAPITULATION OF OPERATING EXPENSES.

The following summary shows the various items of expense to be considered:

Direct:

Salaries of salesmen.

Traveling expenses of salesmen.

Advertising, including catalogues.

Gifts to customers.

Salaries of buying department.

Expenses of buying department.

Labor and expenses of warehousing department.

Labor and expenses of shipping department, including all deliveries to transportation companies and to customers locally.

Indirect:

Salaries of principals. Rent.

Interest on capital.

Interest on borrowed money.

Salaries and wages of house employees.

Stationery. Postage.

Telegraph. Telephone.

Insurance: Fire, credit, casualty, partnership, bonds, liability, plate glass.

Depreciation on merchandise on hand.

Unjust claims by customers. Charity.

Damage, breakage, loss, freight and express charges on returned goods.

Collections. Bad debts.

Miscellaneous expense. Store supplies.

Repairs. Warehouse supplies.

Fuel.
Light.
Heat.
Power.
Freight.
Warehouse fixtures.
Store equipment.
Office equipment.
Taxes.
Legal expense.

It is far wiser when in doubt to charge an item to the expense account than to charge it to the merchandise or any other account.

Every expense which is shown on the ledger, every amount for which you have no positive credit return upon your ledger, is chargeable to the cost of doing business. In other words, practically every expenditure should be put in the expense account, except amounts paid for merchandise, and, in some cases, freight.

Special Business.

Exceptional or special business should not be considered in ascertaining the average percentage of expense, for if included in the amount of gross sales, it will give an incorrect and misleading result and cause a loss on the regularly obtained business.

Exceptional or Special Business

For example: A house enjoyed the patronage of a large public service corporation, and for a very small commission purchased their supplies.

They unwisely merged this special business into their regular sales to the trade and arrived at their percentage of expense accordingly.

Another concern through certain banking connections was in a position to finance companies which

used material in which they dealt. In this manner a large volume of business was secured. Instead of treating it as special business when calculating the percentage of expense of conducting business, they merged it with their regular sales. The result was that while their regular business, obtained through their salesmen, cost them certainly 15 per cent. on the sales, they deceived themselves into believing that it cost them but 9 per cent.

This method of figuring may have led them to believe that they were unusually clever in handling their business, but their competitors who based their figures on regular business must have suffered as a result, and they themselves surely lost through their improper methods.

Attention should be given to the misleading effect of large sales of staples on the percentage of selling expense for the month or year.

Sales of Staples

It has been recommended by some that a separate record of large sales affording a profit of less than, say, 7½ per cent. be kept.

Such a record serves to keep clear the true percentage of expense, for certainly no sales of staples in bulk at a trifling advance over cost should be merged into the sales account of regular goods sold in small quantities at a greater expense.

No business man should allow himself to be deceived as to the cost of doing business by merging such sales into the regular sales account, yet not a few openly boast of their wonderful work in reducing their expense accounts by 2 or 3 per cent. when the truth

is that the supposed reduction is caused by failure to segregate such large sales as are here referred to.

Direct Shipments.

The question of the cost of selling goods which are shipped direct from the factory to the customer is one which is frequently brought up.

Cost of Selling Goods Shipped Direct from Factory

The manufacturer urging this method, possibly with the hope of coming into greater direct contact with the small trade, claims that business handled by direct shipment costs nothing—that it is all "velvet"—clear net profit.

Is it not necessary to go to some expense to build up friendly relations with the customer?

Is it not necessary to pay the salesman's salary and expenses for securing this business?

Is it not necessary for well-paid buyers, sales managers and clerks to give their close attention to this business that it may be properly handled?

Is it not true that shipments from stock may be handled by a lower paid class of help, and that the business may be disposed of in a day or two instead of the two or three weeks necessary to close a transaction when the goods are sent direct from the factory?

Is not the credit risk on direct shipments quite as great as on shipments made from stock, and is it not true that on direct shipments of heavy staples you are asked to incur a heavy credit risk for a transaction at no profit or a possible loss?

In fact, the only gain is a more prompt turn-over

of capital, a saving of warehouse handling and a saving of warehouse rent. It is still necessary to meet all the other items of expense.

A large national association of wholesalers, in issuing a letter to its members on figuring costs, referring especially to the large volume of direct shipments in carloads and less than carload lots, or other special business done on a small margin over cost, said:

"Assuming that a firm does $500,000 worth of business at what they call legitimate, or regular prices, and $200,000 worth of direct shipment and carload business at from 5 to 10 per cent. profit above the net cost, such a firm would consider its gross sales as $700,000, and figuring the expense of doing business at $100,000, would say that the cost of doing business was 14.29%. Thus the fact that they were fooling themselves would be very obvious.

"We, therefore, suggest as follows: That the $200,000 worth of business which is done at a very low percentage of profit above the net cost, should be segregated from what may be called legitimate sales, and the actual money made on direct or carload business should be credited to gross expense.

"Thus, legitimate business $500,000; carload and direct shipment business $200,000, with a profit of $12,000 on the $200,000; total expense, $100,000, less $12,000, leaving $88,000. The percentage of the cost of doing business would then be $88,000 on gross volume of $500,000, or 17.60%.

"Possibly we can make ourselves more clear by stating that one large wholesaler of our acquaintance

does not consider a sale as a legitimate part of his salesman's record unless it bears a profit in excess of 10%. Thus if a salesman has sold $6,000 worth of goods a month, and $1,000 worth of these goods have been sold on less than 10% profit, the head of the house considers that the salesman has sold only $5,000 worth of goods and declines to consider the salesman's record on any other basis."

A Query.

Do Expenses Decrease With Increased Sales?

Question: If it costs 18 per cent. to sell $100,000 worth of goods, the 18 per cent. taking care of the general expenses and all operating expenses, should it cost 18 per cent., or $18,000, to sell the next $100,000 worth of goods?

Answer: It should not, but it does.

Many have an idea that by increasing the volume of their business the percentage of expense can be materially reduced, but a reply to this by a large merchant is quoted as follows:

"We have an interesting illustration of the amount of expense in the years 1907-1908 and 1909. The year 1907 was a very good one. Our sales increased very largely as compared with 1906. Our percentage of expense decreased very materially. Then there was a pressure on the management to make improvements. We wanted more men in some departments. The sales department wanted more help. In 1908 we increased our expenses by adding more men to our office, stock and shipping force. So when the total of 1908 was compared with 1907 we found the increase in the expense

account was very considerable. When you have a good year everybody will want something, and when there is a bad year you don't reduce that expense. There are good people you don't want to let go, and our expense account varies from year to year. If we have a good year we catch up, but you have to increase help and expenses."

Tables Showing Average Selling Expenses.

Investigation into the conditions surrounding the sale of various lines of merchandise has been made from time to time by the brightest minds in each particular line.

On the following pages will be found some tables of average selling expense which have been presented as a fair statement of cost of selling in the businesses covered.

There is quite a similarity existing between the expense accounts in various lines. Some wholesale businesses are conducted at a selling expense of 5 or 6%, while in many retail businesses the overhead expense runs from 20% to 30% on the selling price.

Statement of Selling Expenses.

Doe Plumbing Supply Company,

Wholesale Plumbing and Steam Supplies.

Based on Gross Business of	$500,000	*per year.*
Capital of	75,000	"
Borrowed Money	50,000	"

	Amount in Dollars	Amount in Percentage
Salaries and wages	$45,000	9.00
Rent	6,500	1.30
Heat, light and power	1,250	.25
Taxes	1,250	.25
Traveling expenses	7,000	1.40
Insurance	1,000	.20
Interest, $50,000 borrowed at 4½%	2,250	1.05
Capital at 4%	3,000	
Cartage	6,000	1.20
Boxing	500	.10
Postage	1,250	.25
Stationery and printing	750	.15
Telephone	750	.15
Freight and express	500	.10
Catalogues, advertising, gifts to customers, charity and miscellaneous expenses	6,000	1.20
Bad debts	5,000	1.00
Damage, breakage and transportation charges on returned goods	1,000	.20
Allowance and claims	1,000	.20
	$90,000	18.00

This 18% on the selling price is 22% on cost.

STATEMENT OF SELLING EXPENSES.

JOHN DOE & COMPANY,
Machine Tool Dealers.

Based on Gross Business of	$500,000	*per year.*
Capital of	75,000	"
Borrowed Money	50,000	"

	Amount in Dollars	Amount in Percentage
Salaries of principals.............	$9,000	1.80
Salaries of salesmen..............	10,000	2.00
All other salaries and wages.......	6,000	1.20
Rent	6,000	1.20
Heat, light and power.............	1,100	.22
Taxes	600	.12
Traveling expenses	4,400	.88
Insurance	800	.16
Interest, $50,000 borrowed at 6%...	3,000	1.50
Capital, at 6%..................	4,500	
Cartage	300	.06
Boxing	1,200	.25
Postage	1,200	.25
Stationery and printing...........	1,000	.20
Telephone	600	.12
Freight and express..............	2,000	.40
Catalogues, advertising, gifts to customers, charity and miscellaneous expenses	2,000	.40
Bad debts	2,200	.44
Damage, breakage and transportation charges on returned goods..	500	.10
Allowance and claims.............	800	.16
	$60,000	12.02

NOTE.—This 12.02 per cent. on the selling price is 13¾ per cent. on the cost.

STATEMENT OF SELLING EXPENSES.

DOE WHOLESALE HARDWARE COMPANY.

Based on Gross Business of.......$500,000 *per year.*
Capital of .... 75,000 "
Borrowed Money .... 50,000 "

	Amount in Dollars	Amount in Percentage
Salaries of principals.............	$9,000	1.80
Salaries of salesmen..............	18,000	3.60
All other salaries and wages.......	10,500	2.10
Rent	6,000	1.20
Heat, light and power.............	1,500	.30
Taxes	950	.19
Traveling expenses	8,000	1.60
Insurance	800	.16
Interest, $50,000 borrowed at 4½%.	2,250	.45
Capital, at 4%...................	3,000	.60
Cartage	5,000	1.00
Boxing	700	.14
Postage	1,000	.20
Stationery and printing...........	1,000	.20
Telephone	500	.10
Freight and express..............	1,800	.36
Catalogues, advertising, gifts to customers, charity and miscellaneous expenses	5,000	1.00
Bad debts	2,500	.50
Damage, breakage and transportation charges on returned goods...	1,500	.30
Allowance and claims.............	1,000	.20
	$80,000	16.00

NOTE.—This 16 per cent. on the selling price is 19 per cent. on the cost.

COST OF DOING BUSINESS

FIGURES FURNISHED BY MR. W. W. LOW,

OF THE ELECTRIC APPLIANCE COMPANY, CHICAGO,

Showing Just What Per Cent. of Total Yearly Sales is Consumed in Operating Expenses and How Divided in the Electrical Supply Business.

Item Number	Separate Items of Expense	Houses with Yearly Sales Exceeding $750,000					Houses with Yearly Sales Less Than $750,000		
		A	B	C	D	E	F	G	H
1	Rent	.75	.79	.40	1.18	.72	1.80	1.54	.90
2	Insurance	.13	.36	.03	.11	.15	.23	.50	.29
3	Electric Light, Heat and Power	.13	.34	**16***	.12	.14	.09	**16***	.09
4	Freight, Express and Cartage	1.03	1.26	1.58⅛	1.14	1.31	3.50	3.37	4.61
5	Boxing and Packing	.26	**16***	**16***	.30	.18	.73	.15	**4***
6	Stationery	.32	.19	**12***	.35	.37	.48	.39	.33
7	Postage	.54	.34	**12***	.33		.48	.81	.45
8	Salesmen Salaries & Traveling Exp.	4.28	3.30	4.93½	3.80	3.57	5.30	4.21	6.12
9	Law Collections and Charity	.14	.11	**16***	.10	.23	**16***	.25	.07
10	Taxes	.14	.06	**16***	.10	.03	.15	**16***	.14
11	General Salaries and Wages	4.38	5.25	4.10	3.60	6.69	3.16	5.59	4.02
12	Advertising	.52	.84	1.25	55	.25	.32	.30	.36
13	Catalogs	.47		.50		.07	.08	**6***	.13
14	Bad Accounts	.16	.09	.14	.23	.42	.0004	.83	1.32
15	Furniture and Fixtures	.04	.07	**16***	.11	.13	.037	.24	.10
16	General Expense	1.44	2.23	2.33½	.43	.27	1.41	2.56	1.41
17	Salaries of Principals	.94	1.21	**11***	1.75	.53.	2.43	**11***	**11***
18	Total	15.67	16.44	15.27⅜	14.20	15.06	20.1974	20.74	20.34

The separate items of expense are numbered consecutively. Where a number appears in bold faced type with the asterisk, it signifies that that particular item of expense is included in the item bearing that number. For example, in column B under item five appears 16*, which signifies that the boxing and packing is included under item 16 which is general expense.

COST OF DOING BUSINESS

A Summary Illustrating the Conditions in Connection With the Sale of Harness and Horse Goods at Retail.

The following summary of a business of $20,000.00 per annum has been prepared, giving approximate figures showing expenses that would probably be incurred in the conduct of such a business, based on a capital of $5,000.00:

STATEMENT OF SELLING EXPENSES.

THE HUSTLER RETAIL HARNESS COMPANY.

Based on a gross business of $20,000.00 per annum.
Capital of $5,000.00.

Salaries and wages	$2,000.00
Rent	480.00
Interest on capital	300.00
Interest on borrowed money	50.00
Taxes	100.00
Insurance	50.00
Light, heat, etc	60.00
Advertising	100.00
Stationery and printing	50.00
Postage	40.00
Repairs	40.00
Freight and express	150.00
Bad debts	200.00
Miscellaneous expense	50.00
Depreciation on merchandise or on furniture and fixtures	50.00
	$3,720.00

This $3,720.00 is 18 6-10 per cent. of the annual sales of $20,000.00.

Figuring 18 6-10% overhead expense on the selling price if a merchant desired a net profit of 5% he would sell goods costing $1.00 at $1.30. It should be remembered that cost is not *a thing to be added to*—it is merely a per cent. of the selling price. Therefore with an overhead expense of 18.6% and a desired net profit of 5% it is evident that cost, or $1.00, is 76.4%, and that the selling price, or 100%, is $1.30.

More Queries.

Some Pertinent Questions to Consider

What is the percentage of cost of conducting your business? In figuring this, please take your total expense and total amount of business done, but do not include any special or tonnage business, such as that which is referred to on pages 220 to 223.

What percentage does it cost you for the business taken by your salesmen? In answering this question you should not figure in the house expense.

What percentage does it cost for house expenses? In figuring this take total cost of running your business, less cost of traveling salesmen, and figure on the total amount of business done.

Do the officers of your company or the heads of your firm draw what you would call a reasonable salary? Would they accept a similar amount from others for services of a like nature and consider the compensation adequate?

Do you charge rent if you own your building?

Do you charge all possible monies paid out to the expense account and consequently to the cost of doing business, so that your actual financial condition

is revealed at the end of any stated period; or, are you careless and do you try to deceive yourself by making your showing appear better than it really is?

Do you keep a separate account of each department, so that you may know what percentage of profit each makes; what the gross profits are, and what the expense is, in order that you may have accurate knowledge of what every department is doing?

Do you figure the profit on all your sales, so that you keep yourself constantly informed of your condition, and take any steps necessary to bolster up profits, or do you wait until the end of the year to see what has happened?

Do you keep a record of each salesman's sales—profits, salary and traveling expenses—and do you know what percentage of profit he has made after deducting his salary and expenses from the gross profits, not considering the house expense? If you do this, with the percentage of your house or inside expenses before you, you will know the actual value of each salesman. Some who are first in the sales column may be last in the profit column.

Do you charge interest on money used in the business as a factor in the cost of doing business, or do you look to your final results at the end of the year to take care of this, and run the risk of giving customers the use of your money for nothing?

Average Cost of Distributing Merchandise at Wholesale

The average percentage of expense of distributing merchandise at wholesale seems to vary but little in different businesses.

From authentic information and

accurate data collected from a large number of wholesale houses the percentage of expense of distributing steam, gas and water supplies, plumbing material, mill supplies, electrical supplies, hardware and many other lines has been found to average between 15 and 20 per cent. on the sales.

Exact knowledge is exceptional in the world of commerce, but the fact remains that the prudent man who has an ideal record of costs and applies his knowledge practically is the one who outdistances all his competitors in the long run.

Exact Figures Essential

He is the one who adopts the methods calculated to attract the more profitable class of business; to handle the goods of quality in such a way as to more easily negotiate a profit; to avoid taking the unprofitable class of business generally fought for by those who do not count the cost. He who keeps the cost constantly in mind and directs his energies accordingly is the man whose business grows; whose new warehouses attract the favorable comment of the mercantile community; while his competitor who fails to chart his course with such precision flounders about, making no progress, becoming more and more convinced that the fault is not his by any means, but that the business is hopelessly unprofitable.

Often in attempts to make a good showing, sales are forced blindly as far as a knowledge of net profit is concerned, when it would be far better if a careful investigation of the cost of handling business were made and practical common sense and judgment employed in adjusting prices accordingly.

Manufacturers have always added their "overhead" and selling expenses to the other items entering into the cost before arriving at what *they* consider cost. Merchants, however, have not followed this custom, with the result that salesmen, and even principals have unconsciously felt that any amount secured above their invoice cost was profit. Following the manufacturers' method of using a true cost, sales could be made at cost without suffering any actual loss, as all operating expenses are taken care of in this cost. Were a merchant to sell goods at what he invariably calls his cost, however, he would suffer an actual loss equal to the amount of his operating expense.

Therefore, would it not be advisable to figure costs by adding the overhead expense and when discussing profits with manufacturers let it be understood that no profit is realized until the fixed charges are covered.

What is the True Cost?

Speaking on this subject, a merchant said:

"Now, then, what is the proper cost of goods? Is it the price paid at the factory? Is that the cost? You add freight. Why? Now, are there no other expenses which are as much a part of the cost of those goods as the freight charges? Is not the expense of the man who buys those goods just as much a part of the cost? Is not the salesman's expense, or your order man putting them up, your bookkeeper, your bill clerk, your house managers, your postage, your rent, and every other individual item that is connected with the expense account part of the cost?

"If these are a part of the cost, why not add them?"

It should be borne in mind that the expense sustained by a business house during the year gives the average percentage of expense of selling all goods, but does not give the percentage of expense of selling any particular one of the many lines of goods handled.

Percentage of Expense Not the Same on All Goods

It is well known that certain heavy staples in continual demand are less expensive to handle than are small goods on which the demand is lighter and the cost of handling greater. For instance, where the average cost of doing business is 15 per cent. it will probably cost in the neighborhood of 7½ to 10 per cent. to handle heavy staples. It will cost about 30 per cent. to handle high-grade small goods—bulky, fragile goods which are possibly of a seasonable character, and items where the unit of sale is small. Other goods which take up considerable space in warehouses probably cost about from 18 to 30% to handle.

In arriving at the cost of handling the various lines or classes of goods, the proper proportion of the expense of doing business and the expense of each salesman in effecting sales should be segregated and charged against them.

A leading wholesale hardware house considers and charges specifically to each department or line of goods the following items of expense:

"1. Interest at .. per cent. on the amount invested in stock.

"2. Insurance and taxes on stock.

"3. A rental charge for the floor space occupied in store and warehouses, together with repairs and alterations, and insurance and taxes on buildings.

"4. .. per cent. upon the amount of sales for a provision against bad debts.

"5. The salaries and other expenses incurred exclusively (including any travelers engaged specially) for the department.

"6. Departmental advertising and expense of catalogues in proportion to the amount of space occupied.

"7. A proportion of all general traveling expenses calculated on the basis of the cost of sales made.

"8. A proportion of all other general salaries and expenses of the house, based on the cost of the total sales of the house and calculated on the cost of sales in each department.

"(NOTE.—General expenses comprise salaries of officers, cashiers, bookkeepers, entry clerks, etc., whose services are of a general character and cannot be segregated into one or more departments; the proportion of rent for offices, aisles, etc., also postage, light, heat, cleaning, stationery, advertising of a general character, telephones and telegraph, donations, and the other sundry expenses which are necessary in conducting business.

"The sum total of these general expenses is divided among the various departments in proportion to the cost of the goods sold, for the reason that it is considered a more equitable basis than the amount of

sales, because it would be unfair toward a department manager who obtains a good rate of profit on his goods to be charged a heavier rate of expense in consequence, as compared with a department showing a lower rate of profit.

"Consideration should also be given to the number of times a year that the goods can be turned; the proportion which the item bears to the whole amount of goods sold; the portion of the hauling and packing account which the item should assume.

"In dividing traveling salesmen's salaries and expenses, a less proportion is segregated against the departments comprising heavy staples, for the reason that less time is necessary for selling these articles than the general line of goods.

"By means of this close calculation of the various expenses the actual cost or business expense of each department is arrived at, and a percentage representing the total of such expense is added to the flat cost of the goods in each department, in order to obtain the catalogue or store cost prior to the addition of the proper percentage of profit."

The percentage of expense of handling any given line of goods or a class of goods in which a particular line would naturally fall, can be ascertained by following these rules. This plan may appear to be somewhat radical at first glance, but it is not so much so as one would think.

It is not necessary to employ a high-priced statistician to figure the cost down to the hundredth part of 1 per cent., but the cost of handling different classes of goods may readily be ascertained by a careful calcu-

lation and consideration of the conditions under which they are handled and sold.

In every business there are staples which are sold at a trifling advance over the invoice cost.

Cost of Selling Staples

Now, if it is ascertained that it costs 7½ per cent. to distribute these staples and they are sold on a margin of but 2½ per cent. profit, the fact that you know that it costs 7½ per cent. to handle them may not immediately result in a higher price being secured, but certainly when you keep before you the fact that you are sustaining a loss of 5 per cent. on their sale something will be done to at least cover the expense of selling.

It has been remarked that merchants will sell goods down to a basis of 2½ per cent. profit, but that one rarely hears of a merchant selling goods right down to invoice cost. If staples cost $1 and the expense of distribution is 7½ per cent., why could not the selling price at least be made equal to the true cost, which would be in the neighborhood of $1.08½ (considering that the cost of doing business is always figured on the selling price, which would make it about 8½ per cent. added to cost) so as to avoid a loss on the transaction.

Again, with the present method of selling staples at an advance of but a trifle over net cost, it is necessary to secure an extortionate profit on other goods to make up the deficiency. Such a practice is bad in its effect on the business, and forces business men to do some things which are harmful and inequitable in the extreme.

Where Does Jobbers' Cutting Stop?

A prominent merchant said some time since in addressing a body of business men:

"Now there is another question that I would like to put to you in this line: Did you ever stop to think where demoralization of prices stopped? Now, gentlemen, you all say that you cannot get this price and cannot get that price. Have you ever had a salesman that sent in an order that he didn't get a little more than factory price or cost of goods? Is not that true? Just consider and see if it is not a fact that in all the great demoralizations of prices that we have been compelled to go through, and I speak of not only the present condition, but of four years previous to last year, if the bottom that was reached on goods was not within 5 per cent. of the factory cost. Why was it, gentlemen? Why did it stop there? If demoralization takes place and there is no control of the prices, why do you stop at any particular point? Did you ever stop to think of it? Instead of selling those goods costing $100.00 at $105.00, why did he not sell at $90.00? I tell you, gentlemen, because that salesman came home and looked you in the face and said, 'I could not get any more money on this, but I got $5 on this sale, and that produces that much toward the expense account.'

"Gentlemen, you will not stop demoralization, it is my belief, until you fix the cost and your salesman will not go very far below that cost. That is the first great strong powerful step for us to take. Put on a cost that includes all fixed charges of doing business."

It may be said, "The plan sounds all right, but is

it practical—will it work out?" In answer to this possibly the best reply is that it is and has been found entirely feasible and quite satisfactory by those houses which have adopted it.

By following this plan selling prices may be equitably based on the true cost of handling each line or class of goods.

If under a haphazard plan of pricing—some goods costly to handle have been priced too low—a readjustment can readily be made. In fact, you will have selling prices based on precise knowledge of costs, and no sales can be made at less than your true cost without an instant realization of the fact.

The general impression among manufacturers seems to be that goods should be distributed on 10 per cent., and that 15 per cent. is a fabulous profit. It is patent to the jobbers, however, that such differentials are not remunerative and scarcely cover operating expenses.

A profit of 5 per cent. would undoubtedly be satisfactory to the jobber, but this 5 per cent. must be "in the clear," after the expense of distribution has been defrayed.

A Small Profit, But It Must Be Net

Again, figure true costs, and do not deceive yourself. If goods are billed at $1 each and it costs you 15 per cent. on the sale to sell them, speak of your cost as $1.18, and let it be known that no profit is made unless the sale is made in excess of that figure.

Scientific accounting in business and knowledge secured with absolute accuracy has determined that it

costs the jobbing trade $15.00 to sell every hundred dollars worth of goods.

Many of the salesmen, and, it grieves us to say, many of the merchants doing business to-day, feel that if a sale of $100.00 has been easily made and the goods cost $84.00, that they have made a clear profit of $16.00. They should banish this thought from their minds immediately and forever.

The fact is, that they have made a clear profit of but $1.00; they seem to have entirely overlooked the fact that the overhead selling expenses apply to every dollar's worth of goods they sell and that no sale, of any character whatsoever, can be made without bearing this fixed selling or overhead expense.

One way to bring forcibly to the attention of the employees the cost of doing business is to state to them the fact that every day the house does business, it must make $800.00, or $1,000.00, or $1,200.00, or $1,500.00, or $2,000.00 gross profit, as the case may be, before it makes any *net profit.*

Another way in which the matter could be very strongly put is, that there were 117,000 invoices rendered during a fixed year; that the total business was $2,340,000.00 and that the profit was $46,800.00, or a profit of but 20 cents net on each invoice; thus, if a mistake occurred on a bill and it cost $2.00 or $3.00 to correct such a mistake, it would take ten or fifteen other bills to equalize the cost of that mistake.

Again, the records of many houses have been examined, and the net profit over a period of years has been found to average but 2% on the sales, with a turnover of the money invested of from 3 to 3½ times.

Just think of it, only 2% on the sales. If the year is one of great decline in price, it means that the profits are wiped out entirely. Again, if losses are heavy that year, it means that the small 2% margin is gone.

One reads in the newspapers statements made by a shoe manufacturer, who also retails, to the effect that he will charge the consumer 5% clear profit on their shoes. They say that 5% is all they want, and further explain that they mean 5% over and above the cost of manufacture, including all overhead factory costs, cost of distribution, cost of superintendence, etc., of the manufacturer. The plan is explained as follows:

"An important departure in the American shoe trade is found in the new selling plan adopted by a large shoe manufacturing company, which for years has been selling its brand of shoes at a fixed scale of prices. Under the new arrangements the company's product will hereafter be sold to the retailer at cost plus 5 per cent. This scheme will, of course, involve the employment of a scientific system of cost records. The actual production cost of each model of shoe is thus ascertained, proper consideration, of course, being given to interest and depreciation charges. Selling expenses—cost of putting the shoe in the consumer's hands—as well as the 5 per cent. profit are then added, and the resultant sum stamped on the bottom of the shoe. Finally the entire calculation is verified and attested by public chartered accountants. An official of the company says in this connection:

"We are simply applying to the retail shoe business a method which is successfully in vogue in the wholesale shoe business. It is anything but a price-cutting campaign, as we expect to make 5 per cent. profit on our total turnover, and that is all we ever plan to make.

"It is true that an established tradition of the shoe trade is thereby shattered, but the gain is to the consumers. Prices for shoes are universally graduated on the 'even money' basis, always multiples of the half dollar. If the leather entering into a $4 shoe drops 20 cents a pair, no reduction in prices follows to

the consumer, although the honest manufacturer will feel constrained to put more value into the shoe to the extent of the saving in leather cost. On the other hand, should leather advance 20 cents, it generally happens that the amount of the advance is taken out of the quality of the shoe or the selling price is raised a full half dollar. We propose to build our shoes entirely without reference to any fixed retail standard, allowing the price to fall where it will."

Now, does not that mean that it is necessary to have a certain amount over and above everything to pay for the cost of doing business and to make a profit, and when it is different from that, does not it mean that something inferior must be substituted or somebody else must lose some money?

The public are freely patronizing this company on this basis, but are there not wholesalers who would hold up their hands in "holy horror" if anyone suggested that they pursue such a policy in making up all selling prices, for it surely would be declared that 5% net profit on sales was too much to even hope for.

In view of these indisputable facts and statements of conditions prevailing, salesmen should not be permitted to change selling prices arbitrarily. The prices which are fixed by the house, with a thorough knowledge of conditions and with carefully compiled figures of costs before them, should be the lowest prices at which the goods should be sold. No idea should be allowed to linger in the minds of the salesmen that they will be permitted to vary from these fixed selling established prices.

Public opinion generally seems to be opposed to combinations to uphold prices. The time has come, however, for business men to bolster up a declining

range of prices by protecting themselves and the investors whom they represent.

Mercantile pursuits must do more than return a meagre 5 or 6 per cent. dividend for the lifeblood which is poured into them. Such a return could easily be swept away by some unfavorable turn of the market.

A Poor Return

It has been the experience of some merchants to conduct a business of \$500,000, \$1,000,000 or \$2,000,000 per annum at an average percentage of expense of 15 per cent. over a period of years. The dividends declared have amounted to but 7 per cent., or a net profit on the turnover of but 1½ per cent. Would not a slight turn for the worse in the market, a few heavy losses or a run of unjust claims wipe out such a narrow margin?

Turning Over Capital.

Investigation in many lines of merchandising has shown that the capital employed is "turned over" from 2½ to 4 times a year.

Number of Times Capital Is Turned

Many wholesalers are today making dividends of but 7%—turning their capital 3½ times—a net profit of 2% on the sale.

The activity of the capital—and all monies employed in a business—is most important and is reflected vividly in the results at the end of the fiscal year.

In discussing this question recently a prominent wholesale grocer in Philadelphia in a paper prepared and read endeavored to show: *First*, how much busi-

ness can be done with a given amount of capital; and, *Second*, how much capital should be employed to do a given amount of business; and as a practical illustration gave in round numbers, taken from exact figures, not including real estate, furnished him by fourteen jobbers in as many State, as follows:

Capital	Mdse.	Cash and Receivables	Sales	Times turn Mdse.	Times turn Capital
$ 150,000	$100,000	$ 85,000	$ 500,000	4.7	3.3
150,000	150,000	100,000	800,000	5.3	5.5
1,100,000	550,000	700,000	3,000,000	5.4	2.7
400,000	250,000	240,000	1,500,000	6.0	3.8
635,000	550,000	485,000	2,500,000	4.4	3.9
600,000	290,000	410,000	1,800,000	6.2	3.0
250,000	235,000	280,000	1,400,000	6.0	5.5
1,250,000	965,000	850,000	6,400,000	6.6	5.1
325,000	140,000	180,000	1,000,000	7.2	3.1
200,000	108,000	207,000	1,100,000	10.7	5.7
240,000	235,000	265,000	1,400,000	5.8	5.7
865,000	650,000	750,000	3,250,000	5.1	3.8
192,000	133,000	178,000	900,000	6.7	4.7
240,000	130,000	132,000	1,150,000	8.9	4.8

From this list it will be seen that the capital is turned from 2.7 to 5.7, and that the merchandise is turned from 4.4 to 10.7. "It is, therefore," said the writer of the paper, "fair to consider that a merchant cannot expect to turn capital, even under the most favorable circumstances, more than six times; so if the capital is $100,000, the maximum business in groceries at wholesale that should be done is $600,000. Where the capital is limited, attention should be given to increasing profits rather than increasing sales.

"It will be noted that one firm turns its capital only 2.7 times and one its merchandise only 4.4 times.

Randolph Whitman in his little booklet, 'Dead Without Knowing It,' says:

" 'Easy Finance has killed a whole lot more businesses than it ever saved.'

"One thing is certain, too much capital leads to over-stocking, and is in no way desirable. Not over $100,000 should be employed to do a wholesale grocery business of $500,000."

Different conditions rule in different localities. There can be no hard and fast rules for the conduct of business, but it is certain that this showing in the wholesale grocery business, where capital is supposed to be especially active, may be of value.

In the wholesale hardware business the matter of the "turnover" of capital and the net percentage of profit on sales was made the subject of an official investigation with the following result:

In 66 replies the aggregate capital represented was $20,100,000, and which was turned as follows:

1	house	turned	its capital	1½	times.
4	"	"	"	1¾	"
6	"	"	"	2	"
4	"	"	"	2¼	"
7	"	"	"	2½	"
1	"	"	"	2¾	"
15	"	"	"	3	"
6	"	"	"	3¼	"
4	"	"	"	3½	"
2	"	"	"	3¾	"
5	"	"	"	4	"
4	"	"	"	4½	"
7	"	"	"	5	"

From 54 replies concerning the average *net profit* for five years past the following information was obtained:

1	house	made	...... $1\frac{1}{2}$%	on sales
1	"	"	...... 2 %	"
2	"	"	...... $2\frac{1}{2}$%	"
2	"	"	...... $2\frac{3}{4}$%	"
2	"	"	...... 3 %	"
5	"	"	...... $3\frac{1}{4}$%	"
5	"	"	...... $3\frac{1}{2}$%	"
2	"	"	...... $3\frac{3}{4}$%	"
11	"	"	...... 4 %	"
3	"	"	...... $4\frac{1}{4}$%	"
4	"	"	...... $4\frac{1}{2}$%	"
1	"	"	...... $4\frac{3}{4}$%	"
7	"	"	...... 5 %	"
6	"	"	...... $5\frac{1}{2}$%	"
1	"	"	...... 7 %	"
1	"	"	...... $7\frac{1}{2}$%	"

From the foregoing figures and from results from various wholesale businesses, one is inclined to think that there is a very hazy conception of what business enterprises are justly entitled to and what the public generally would consider fair.

Many goods, particularly staple lines, have been and are being sold on so close a margin that it probably influences a belief against the possibility of doing anything better, and so many business houses go along in a rather hopeless manner settling down to the disconsolate belief that 6% net on capital is all that a business can be made to pay.

Figuring on a turn over of capital four times a year, this is only 1½% on the sales. Six per cent. on capital is certainly inadequate for it does not pay a reasonable return for the labor involved and the risks taken.

Many conservative business men hold that an average of 5% net on sales would not be at all extravagant or excessive for the labor involved and the risks assumed, many of which risks cannot be or are not included in the expense account, such as loss by fire not fully covered by insurance (and no matter how fully one is insured there is always a loss from fire), flood, cyclone, a natural accumulation of slow stock, loss through sampling and broken packages, etc., unusual failures and excessive bad debts, unexpected decline in values, such as often happen in unnatural market conditions, and many other causes which constantly eat up any surplus profit gained and tend to weaken the showing.

Years of intelligently directed labor and ownership and skillful management of a large business enterprise should bring a proper reward.

A Profit Must Be Negotiated

These years should witness the accumulation of a snug fortune as a provision for later years and posterity. How such a proper ambition could be achieved from a business offering such small returns is not evident, and will probably continue to be impossible unless a changed policy is adopted by business men generally.

Every man starts out in business to make a profit;

A STRIKING SIMILARITY.

but nine out of ten men forget to see whether their business is profitable as it progresses. They imagine that orders mean business; and that business means profit; the more business the more profit. This is a fallacy that has often been proved in that severe school of commercial education, the bankruptcy court.

Why will men do business without a profit? Do they desire to become public benefactors, paying help and working to distribute the wares of various manufacturers without recompense? Will any one thank them for it?

Will the customers who have benefited put forth a hand to save a bankrupt from the workhouse, when ruined in business and broken in health? No! not a bit of it. The world will move on, shrug its shoulders, and say, "Why was he fool enough to work at no profit?"

Is not a business affording a meagre existence for its owners who give their lives to it a sorry spectacle indeed? Is it not an astounding situation to those who ponder over it?

All reason and common sense should tell a man that he must work to make a profit, and no profit can be made until after the operating expenses are defrayed. Every man in business ought to have constantly staring him in the face the words, *Make a profit!* Write it large, have it prominently before you every minute, impress its importance on every employee who has to do with sales. Rub it in thickly for it breeds success—*"Make a Profit!"* "Make a Profit!" "MAKE A PROFIT!"

The demand for a better and more equitable return is fully justified and must be pressed. We give to our business all we have of time, of labor, and devotion, and if we are its servants, at least it should pay us well, for our service is worth more than the laborers' wage.

Hard Work for a Small Return

How many hours have you worked, how many days a year, to make a beggarly 6 per cent. clear on your investment? How many times have you gone home sick with the worries of a business whose expenses were *howling like wolves at the heels of its profits?*

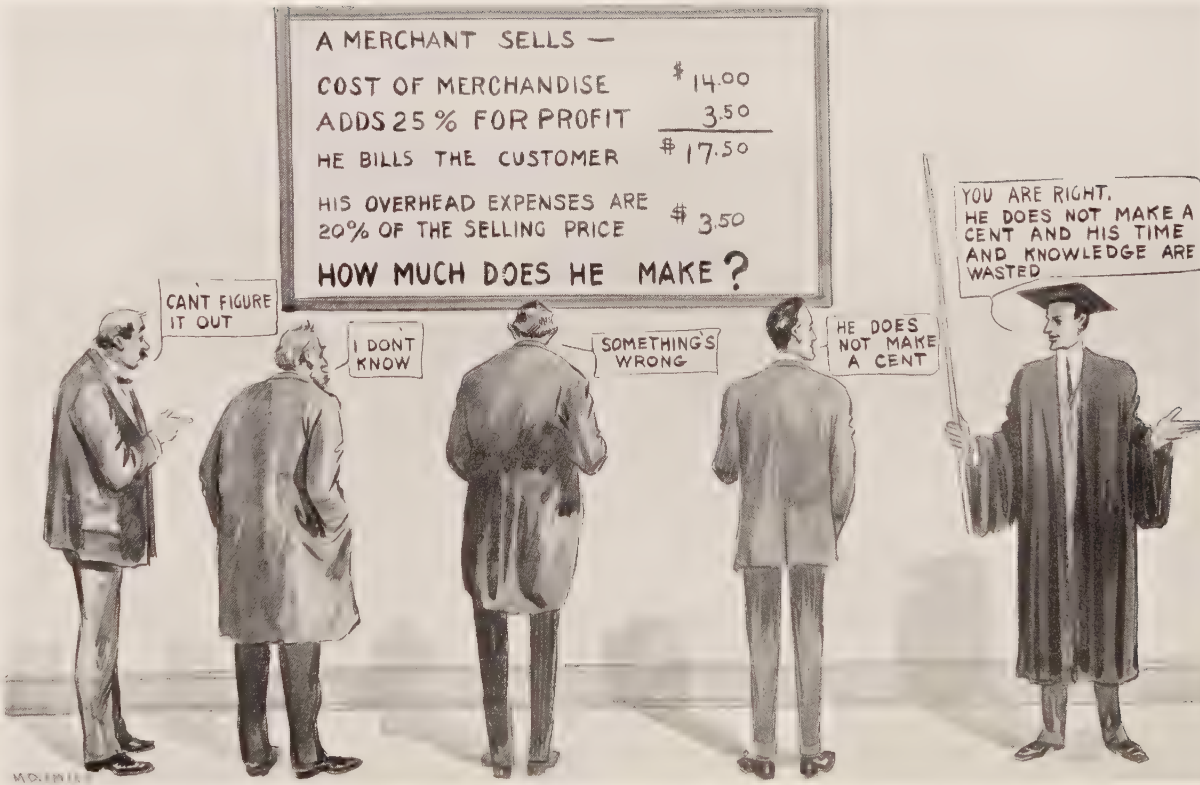
And what for? Partly for the same reason that prompts every man—that dogged spirit that is in all of us, the grim determination to make a success of a hard game. Partly that and partly because the profit must be wrung from the business if we are to live. Most of us are willing to pay the price and succeed, but at what a terrible cost.

The opportunity has now come for men of commerce to develop their business to a more profitable degree by discontinuing the old false cost system and making every day grow bigger in its dividend-earning power by selling goods at a price based on the true cost, viz., the invoice price plus the operating expenses, paying proper attention to the varying cost of handling different lines of goods.

In this way, and in this way only, will the profit possibilities of the business of distributing merchandise be realized.

PART III.

THE RIGHT WAY TO FIGURE PROFITS.



AH! HE DOES NOT MAKE A CENT!!

THE RIGHT WAY TO FIGURE PROFITS

It is indeed remarkable that on such an important subject as the method of calculating the percentage of profits there should be such a variance of opinion as seems to exist, for the issue involved is vital to the welfare of every one engaged in any form of commercial activity.

True, the vital issue is the showing of net profit in dollars and cents at the end of the year when the inventory is completed and books are closed, but in order that this showing should be satisfactory, the proper method of figuring profits should be pursued during the year. In our mind there should be no misunderstanding as to the correct method of calculating this most essential element in every business transaction, for accuracy is the twin brother of honesty and right methods are necessary for the attainment of any desirable thing.

Correct Method Should Be Sought

Every man engaged in business ought to be able to see that John does not have 50% more than James, because James has 50% less than John.

Yet many business men seem to have persistently refused to acknowledge that *any per cent. of a smaller sum is a smaller per cent. of a larger sum*—

They Ought to, But Do They?

that if a fixed sum is a certain per cent. of a certain sum, it is a smaller per cent. of a larger sum—or to put it concretely, that if 25 is 25% of 100 it is only 20% of 125 and 25% increase over cost is 20% profit on the selling price.

An incorrect or incomplete understanding of percentage of profits and failure to observe the proper method of figuring the percentage of profit is the rock on which many commercial undertakings have gone to pieces.

Text Books Incomplete

The subject of percentage of profit has not been given sufficient consideration by the school and college text book writers, especially from the standpoint of business men, so that the insufficient and incorrect understanding of the question has led many to falsely believe that the percentage of profit should be figured on the cost.

The method of figuring the ratio of profit on the sale is declared by many who may not be fully informed to be diametrically contrary to the methods taught in our schools, and is therefore loudly decried by those who now insist on using the net cost as a base, to their consequent loss.

Strictly a Business Question

So that it may not be misunderstood, it should be said that it is *scientifically* correct to use either the cost or the selling price as a base in figuring the percentage of profit, so long as it is stated on what base the percentage has been calculated. This, however, should not be regarded as being in the nature of an academic discussion, for it is certainly the

privilege of professional men to hold any views that they may prefer on this subject; but it is hoped that they will concede to business men the same privilege, especially when the method followed has such a decided effect on the volume of net profit realized from the conduct of their business, and permit them to adopt that method which most fully answers their requirements. The idea is to prevent men from figuring the cost of doing business on the gross sales and their percentage of profit on the cost of merchandise —without appreciating the fact that it makes a difference.

School and college text books refer to this question as "Percentage of Gain and Loss," and the initial figure or cost is used as the base.

Some text books use as the base a prime or net cost and again others add a certain amount for expenses using the gross cost as the base. So far as the question under discussion is concerned the percentage of profit should be figured on the selling price, just the same, whether prime cost or cost plus selling expense is used.

Many of the examples given refer to abstract figures, citing such cases as the following:

"If the population of a town increases from 30,000 to 45,000, what is the percentage of gain?

"Answer—50%."

This is, of course, correct, and the words "gain" and "increase" are properly used in this connection, but this bears no relation to the question of percentage of profit as applied to commercial transactions involving money.

With the cost as a base or 100 the text books figure that if 25% is added the percentage of profit is twenty-five one-hundredths (25-100) or ¼, which is equal to 25%. In this case we would consider the cost as 100 and the added 25% would make a total of 125.

The selling price should be considered as 100 per cent. (100%) and percentage of profit would be 25-125 (one-fifth) which would be 20% profit on the sale.

Hundred Per Cent. Profit Impossible

A percentage of gain or increase of many hundred per cent. is possible, but as percentage of profit is on sale, 100 per cent. profit is impossible unless the goods are secured free of charge.

The percentage of profit and the percentage of cost of doing business should both be figured on the same base.

Most Merchants Base Figures on Delivered Cost

First, let us consider what we use as our cost. Almost all merchants consider as cost the invoice price or "prime" cost, with no selling or other expenses added, merely figuring in the cost of delivery to their warehouse.

All operating expenses, storage, selling, office expenses and every other item of expense and profit must be provided for in the difference between this net cost and the net selling price.

Manufacturers' Cost Includes Selling Expenses

On the other hand, manufacturers very generally start with their shop or mill cost and add to this all the direct outlays inci-

dent to placing the goods in the hands of the buyer. This includes storage, selling expenses, office expenses, packing, freight and all miscellaneous expenses, making a gross cost above which everything is profit.

Variance of Opinion Between Manufacturers and Merchants

This fact accounts in a measure for the variance of opinion between some manufacturers and merchants on this question. Manufacturers are prone to tell merchants that on their line of goods a profit of 25% is made, when the fact is that the gross profit is 20% on the sale. If arguments of this nature are properly met, a change of method beneficial to the entire business community will be effected.

Don't Be Misled

The fact is, however, that no matter whether the prime or gross cost is used the percentage of profit should be calculated on the selling price.

Business men generally are coming to a knowledge of the fact that universal convention in an approved method of figuring the percentage of profit adapted to business conditions, will accrue to the general benefit of all.

Universal Adoption of Correct Method Desirable

Some of the more important reasons for pursuing this method of figuring the percentage of profit on the sale are as follows:

In every business (we refer more particularly to merchandising) two separate amounts of capital are required. One item of capital is required for investment in merchandise. Another item of capital is necessary for operating expenses, selling expenses and

all other expenditures not properly chargeable to merchandise account.

All the capital invested in the business must produce a proper return. Dividends are obviously impossible on the entire amount of capital invested unless all is considered in making selling prices.

If the percentage of profit is reckoned on the cost of merchandise only, no provision is made for the other necessary item of capital demanding returns.

The sales totals are always readily ascertained, but the total of each individual, daily and monthly cost of goods sold is seldom, if ever, recorded in the books of business houses.

Total Cost Not Accessible

Therefore, with the sales totals always present and the fact conceded that the purpose of the business is primarily selling, is not the sale a proper base for all calculations, and how could cost be considered when it is not definitely known by reference to sales books?

Gross costs can only be ascertained from the totals obtained at the end of the business year, and are not shown daily as are the gross sales.

The amount of profits depends largely on the volume of business, so that the percentage of profits to sales is clearly indicative of the character of the year's work.

The percentage of profits on cost would not indicate so accurately the result of the year's business.

The percentage of expense of conducting a busi-

ness may be readily ascertained by dividing the gross expenses by the gross sales. As this percentage of expense is on the sales, it is thought best to refer to the percentage of profit on the sale to avoid any misunderstanding and consequent loss through the use of any other method. For instance, if you figure your percentage of profit on the cost and your overhead expenses on the sale—you may add 25% to the cost—with an overhead expense of 20% on the selling price and expect to make money. Do you?

Percentage of Expense is Found on Sales

The fact that a profit is not made until a sale is actually effected further advances the selling price as the proper basing factor for percentage of profit.

No Profit Till Goods Are Sold

The salary or other form of remuneration of salesmen is always reckoned on the sale and the amount is always based more or less on a percentage of the sales totals.

Remuneration of Salesmen

Mercantile or other taxes of a similar nature are assessed on a certain percentage of the annual sales.

Also if any special taxes are levied by the state on the sales of any special goods, such as revolvers, drugs, etc., the amount is always a certain percentage of the selling price of such items and not a percentage of the cost.

Mercantile Taxes

All allowances in percentage to customers for any reason, or no reason at all, are based on the selling price. There is the 10% allowance by depart-

ment stores to the clergy, dressmakers, teachers, etc.—all deduct the 10% from the selling price, and they neither know of, nor care about the cost.

Allowances Always on Sale

Certainly the astute managers of department stores do not *add* 10% and then allow 10% thereby losing 1%.

The use of terms of percentage in the advertisements of retailers has educated the consumer to figure percentage.

No merchant enjoying a reputation for honesty would think of making such an alluring promise as to give a dollars' worth of goods for fifty cents or even the whole dollars' worth for nothing.

In Advertising We Speak of 10 Per Cent. Off

This probably seems ridiculous, yet such expressions as "Let us save you 50% to 100% on your clothing bills," are used by some business houses.

None can fail to realize what a saving of 100% means. It means that they are going to give away the goods or merchandise offered.

100 Per Cent. "Saving" Ridiculous

The consumer only has before him the selling price, and although the merchant may be making 200% increase over cost on his goods, he can never, never make any money selling to the consumer at a saving of 100% even if he got the goods for nothing—in which case he would only come out square and at a loss of his operating expense.

Again, through this illustration, we see the advisability and wisdom of figuring, talking and thinking

of the percentage of profit as based on the selling price —not on the cost.

The men who figure profit on the cost price aim to prove the correctness of that method by saying:

The Other Way —Figuring on Cost

"Start out with a dollar in your pocket, and buy two bushels of potatoes at 50 cents a bushel. Sell them at 75 cents a bushel. You now have a $1.50. You have gained 50 cents. Now 50 cents is 50% of $1.00, and the profit is 50%."

This Method is One for Merchants

We are dealing with the man who keeps books; who knows what his sales totals are; who has an expense account; whose salesmen look for a compensation equal to some fixed percentage of their total sales.

If our potato-selling friend in the illustration had incurred extravagant overhead charges—auto delivery, etc., to sell his potatoes and his selling cost would have been 40% on the sales—his profits would have been losses.

Only the True, Correct Method Being Sought

Some have an impression doubtless based on inaccurate and incomplete information, that this method of figuring the percentage of profit on the selling price is for the purpose of fooling one's self into the belief that one is making less money than is really the case. This is not so. Business men should figure the percentage of profit on the selling price in order to arrive at the exact truth and to avoid fooling themselves into believing that they are making money when they are losing.

Of course, net profits in a sufficient volume of *dollars and cents* is the ultimate goal, but again the fact may be repeated that correct methods are necessary to the attainment of any desirable thing.

Result of Figuring Percentage of Profit on Cost

As an illustration of the greater safety of figuring on sales, especially with untrained minds which do not properly discriminate, a case may be cited where the general manager of a business sold an article which cost $.80 for $1.00 and basing his percentage of profit on the cost figured that he was making 25%. At the end of a given period the sales totaled $20,000. The manager told a stockholder the amount of sales and also the percentage of profit.

The presumption was that a profit of $5,000.00 had been realized, while the books only showed a profit of $4,000.00 or 20% on the sales.

This general manger was doubtless like many other other men in the fact that it is necessary for them to explain many, many details. Then, why add one more item to this list of things to be explained, when useless, time-wasting expositions could be spared manager and stockholder by figuring on the selling price.

Cases have come to our notice where arrests for defaulting have actually been made in such instances, and the wisdom of figuring the percentage of profit on the sale has been taught the prosecutor and defendant at considerable expense.

As a specific instance of a case where the matter of the method of figuring the percentage of profit was

reviewed in court, it is on record that some years since, a Philadelphia cloth merchant had his manager (who was also his bookkeeper) arrested for embezzlement.

Percentage in the Criminal Courts

The facts were that the proprietor had a certain line of imported goods on which he had a fixed percentage of profit—say 25%. He figured his profit on the cost—not on the selling price.

The proprietor went to Europe. When he came back he looked over the books and found that the sales during his absence amounted to $125,000; he thought of the 25% profit he had been making and thought he should have $31,250 gross profits.

On referring to other records he found that he had but $25,000 gross profits;—he figured he was short $6,250.00 in his gross profits. He had the manager arrested for embezzlement. The manager was thrown in the county prison; an expert accountant was sent for, and two days' work on the books failed to reveal any irregularities. The expert accountant closely questioned the merchant as to how he came to charge the manager with embezzlement.

Ignorance Leads to Arrest of an Innocent Man

This conversation revealed the startling fact that it was on the matter of an incorrect conception of net profits due to a false method of figuring the percentage of profit that the charge of embezzlement was laid.

Two hours' attempted explanation, by the expert accountant, of the matter of the methods of calculating the percentage of profit and an attempt to show that any per cent. of a smaller sum is a smaller per cent.

of a larger sum, or that 25% of 100 was 20% of 125, failed to show the merchant where he had made his disastrous mistake.

The accountant then sent for a box of matches. He counted out one hundred matches. He then added 25 matches for the 25% profit that the merchant talked about. Then said he, "We will suppose that these 125 matches equal the amount of your sales, $125,000.00 as you saw when you came home from abroad. You believed you were making 25% profit. You did not think whether this percentage was on the cost or on the selling price.

Hard to Drive a Point Through a Thick Skull

"You possibly thought, in common with a great many other merchants, who have given the matter no consideration, that it made no difference—but, Sir, you went to your sales account, or to these 125 matches, you took therefrom 25% of the amount of your sales, $125,000, and, in so doing, you went into your cost 6¼ matches, or $6,250.

"In other words, you calculated you had 25%—31¼—($31,250.00) on the 125 matches or $125,000, whereas you had made a gain of this 25% not on $125,000 but on $100,000—you had only made 20% on the $125,000 or $25,000, so the best thing you can do is to get this manager out of jail and make amends to him as best you can."

A Costly Lesson

The merchant saw his mistake and forthwith secured the release of the bookkeeper from prison, but incidentally paid $2,500 damages for false arrest and imprisonment.

THE RIGHT WAY TO FIGURE PROFITS

In a recent series of articles, *"The New Gospel of Efficiency,"* Mr. E. St. Elmo Lewis, advertising manager of Burroughs Adding Machine Company, said:

"A retailer was buying shirts at $1.00 apiece. I asked him how much it cost him to do business. He said he thought 25% would cover it. I asked him what he thought he would make on it; he said he marked it up for 20% profit and his price was $1.45. His price should have been $1.81 to make a 20% profit."

Prominent Expert Figures Only on Selling Price

This statement from a prominent official of a company making wonderful calculating machines, and whose daily work has to do with the various methods of correct and rapid figuring, would surely not be based on any method except the right one.

Furthermore, the method of figuring the percentage of profit on the selling price is followed and insisted upon by thousands of manufacturing and mercantile houses throughout the country, who only advocate methods which are absolutely correct and in accord with sound business practices.

From an article printed some time ago we quote as follows: "You will find in every arithmetic such examples as: A man buys a horse for $50 and sells him for $75, what percentage of profit does he make? Answer, 50%." No more fatal and misleading ones were ever penned. They lead us to think of the percentage of profit from an unbusinesslike standpoint, and cause many business men to think

"Arithmetic Method" Misleading

they are making much larger profits than they really are. This makes them prodigal of expense and often leads to a failure, which with a more thorough knowledge of percentage could have been avoided.

Suppose a man to have in contemplation the sale of a horse on the basis of the above transaction. A broker approaches him and offers to conduct the negotiations. He asks a commission of 33 1-3%.

Now, the owner of the horse, having a profit of 50% in sight, agrees to this, and the broker, having completed the transaction, renders a bill as follows:

Example of Wrong Method

Sold one horse at	$75
Commission, 33 1-3%	25
Due seller	$50

The seller's books would show a profit of 50% entirely eaten up by a commission of 33 1-3%. Not good figuring, is it? Still that is the way nine-tenths of our smaller merchants figure, which fact often accounts for their being small.

Always Be on Safe Side

Always figure your profit on the sale. Then you will be on the safe side. To obtain the correct percentage of profit on any transaction subtract the cost from the selling price, add two ciphers to the difference, and divide by the selling price.

EXAMPLE NO. 1.

An article costs $5 and sells for $6. What is the percentage of profit? Answer, 16 2-3%.

Process—Six dollars minus $5 leaves $1, the profit. One dollar divided by $6, decimally, gives the correct answer, 16 2-3%.

Process of Figuring

This operation is simple and a knowledge of it being vital to any one engaged in, or intending at any time to engage in business, it should be carefully committed to memory and constantly borne in mind.

EXAMPLE NO. 2.

An article costs $3.75. What must it sell for to show a profit of 25%? Answer, $5.

Analysis of Figures

Process—First bear in mind this axiom: THE COST PRICE OF AN ARTICLE IS NOT A THING TO BE ADDED TO. IT IS A PER CENT. OF THE SELLING PRICE.

Then—

Let the selling price equal	100%
Deduct profit desired	25%
Cost is 75% of selling price	75%

Then 75% is $3.75, 1% is $.05, 100 per cent. or the selling price is 100 times $.05 or $5.00. Now, if you marked your goods as too many do, by adding 25% to the cost, you would obtain a selling price of about $4.69, or 31 cents less than by the former method. Which is right?

When you take 25% off the selling price, figured according to the first rule, you will still have your cost

intact. Take 25% from the second sum and see if the cost remains.

Great Merchant Shows Ignorance

A large department store changed hands. The goods in stock, to cover freight and other charges, were marked up 10%. They were to be sold at actual cost, but for convenience sake were invoiced as marked. The inventory having been completed, nothing remained to be done but take off the 10% that had been added.

The parties to the sale accordingly approached the accountant having the matter in charge with a request that this be done. The man of figures set about making an elaborate calculation with this object in view, when he was questioned by the seller as to what he was doing.

"Reducing the goods to cost," he answered.

"Nonsense! Just take off 10%," said the seller.

"Do you want it done that way?" asked the accountant.

"Why not?" said the merchant.

"Well, just add 10% to a dollar and from the amount thus obtained deduct 10% and see if you have your original dollar left."

The merchant saw the point at once and said no more to the man of figures, who was saving him more than $3,000 which he would otherwise have lost on account of a lack of knowledge of percentage.

EIGHT REASONS WHY THE PERCENTAGE OF PROFIT SHOULD BE FIGURED ON THE SELLING PRICE AND NOT ON THE COST:

First—Because the remuneration of salesmen is figured on a certain percentage of the selling price.

Second—Because the percentage of expense of conducting business is based on the selling price. If you talk per cent. of profit on cost and per cent. of expense on the selling price, where are you?

Third—Because the mercantile and other taxes are invariably based on a percentage of the gross sales.

Fourth—Because the sales totals are always given in books of record—cost totals are seldom, if ever, shown.

Fifth—Because a profit must be provided for two items of capital—one the capital invested in merchandise—the other the capital necessary for operating expenses and other expenditures not properly chargeable to merchandise account. This is only possible by figuring profit on the selling price.

Sixth—Because it indicates correctly the amount of gross or net profit when amount of sales is stated. The percentage of profits on sales is indicative of character of result of years' business—percentage of profit on cost is not.

Seventh—Because allowances in percentage to customers are always from the selling price.

Eighth—Because no profit is made until sale is actually effected.

The following table shows the percentage which must be added to cost to effect a given percentage of profit on the selling price:

Add to Cost	To Make on Selling Price	Add to Cost	To Make on Selling Price
5%	4¾%	31.58	24
7½	7	33 1-3	25
10	9	35	26
11.11	10	37½	27¼
12.36	11	40	28½
12½	11⅛	42.86	30
13.63	12	45	31
14.94	13	47	32
16.28	14	50	33 1-3
16 2-3	14¼	53.85	35
17.65	15	55	35½
19.05	16	60	37½
20.00	16 2-3	65	39½
20.49	17	66 2-3	40
21.96	18	70	41
23.46	19	75	42¾
25	20	80	44½
26.58	21	85	46
28.21	22	90	47½
29.88	23	100	50

TABLE FOR FINDING THE SELLING PRICE OF ANY ARTICLE

COST TO DO BUSINESS	NET PER CENT PROFIT DESIRED																				
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	20	25	30	35	40	50
15%	84	83	82	81	80	79	78	77	76	75	74	73	72	71	70	65	60	55	50	45	35
16%	83	82	81	80	79	78	77	76	75	74	73	72	71	70	69	64	59	54	49	44	34
17%	82	81	80	79	78	77	76	75	74	73	72	71	70	69	68	63	58	53	48	43	33
18%	81	80	79	78	77	76	75	74	73	72	71	70	69	68	67	62	57	52	47	42	32
19%	80	79	78	77	76	75	74	73	72	71	70	69	68	67	66	61	56	51	46	41	31
20%	79	78	77	76	75	74	73	72	71	70	69	68	67	66	65	60	55	50	45	40	30
21%	78	77	76	75	74	73	72	71	70	69	68	67	66	65	64	59	54	49	44	39	29
22%	77	76	75	74	73	72	71	70	69	68	67	66	65	64	63	58	53	48	43	38	28
23%	76	75	74	73	72	71	70	69	68	67	66	65	64	63	62	57	52	47	42	37	27
24%	75	74	73	72	71	70	69	68	67	66	65	64	63	62	61	56	51	46	41	36	26
25%	74	73	72	71	70	69	68	67	66	65	64	63	62	61	60	55	50	45	40	35	25
26%	73	72	71	70	69	68	67	66	65	64	63	62	61	60	59	54	49	44	39	34	24
27%	72	71	70	69	68	67	66	65	64	63	62	61	60	59	58	53	48	43	38	33	23
28%	71	70	69	68	67	66	65	64	63	62	61	60	59	58	57	52	47	42	37	32	22
29%	70	69	68	67	66	65	64	63	62	61	60	59	58	57	56	51	46	41	36	31	21
30%	69	68	67	66	65	64	63	62	61	60	59	58	57	56	55	50	45	40	35	30	20

RULE

Divide the cost (invoice price with freight added) by the figure in the column of "net rate per cent profit desired" on the line with per cent it cost you to do business.

EXAMPLE:

If a wagon cost $60.00
Freight 1.20
$61.20

You desire to make a net profit of . . . 5 per cent

It costs you to do business 19 per cent

Take the figures in column 5 on line with 19 which is 76

76 | 61.2000 | $80.52 — the selling price
608
400
380
200
152

The percentage of cost of doing business and profit are figured on selling price.

TABLE FOR FIGURING NET PROFITS

If your cost of doing business figured on sales is represented by one of these figures

And you mark your goods at one of these per-centages above delivered cost.

%	10%	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%	21%	22%	23%	24%	25%
25	10	9	8	7	6	5	4	3	2	1	00	1 Loss	2 Loss	3 Loss	4 Loss	5 Loss
$33\frac{1}{3}$	15	14	13	12	11	10	9	8	7	6	5	4	3	2	1	00
40	$18\frac{4}{7}$	$17\frac{4}{7}$	$16\frac{4}{7}$	$15\frac{4}{7}$	$14\frac{4}{7}$	$13\frac{4}{7}$	$12\frac{4}{7}$	$11\frac{4}{7}$	$10\frac{4}{7}$	$9\frac{4}{7}$	$8\frac{4}{7}$	$7\frac{4}{7}$	$6\frac{4}{7}$	$5\frac{4}{7}$	$4\frac{4}{7}$	$3\frac{1}{7}$
50	$23\frac{1}{3}$	$22\frac{1}{3}$	$21\frac{1}{3}$	$20\frac{1}{3}$	$19\frac{1}{3}$	$18\frac{1}{3}$	$17\frac{1}{3}$	$16\frac{1}{3}$	$15\frac{1}{3}$	$14\frac{1}{3}$	$13\frac{1}{3}$	$12\frac{1}{3}$	$11\frac{1}{3}$	$10\frac{1}{3}$	$9\frac{1}{3}$	$8\frac{1}{3}$
60	$27\frac{1}{2}$	$26\frac{1}{2}$	$25\frac{1}{2}$	$24\frac{1}{2}$	$23\frac{1}{2}$	$22\frac{1}{2}$	$21\frac{1}{2}$	$20\frac{1}{2}$	$19\frac{1}{2}$	$18\frac{1}{2}$	$17\frac{1}{2}$	$16\frac{1}{2}$	$15\frac{1}{2}$	$14\frac{1}{2}$	$13\frac{1}{2}$	$12\frac{1}{2}$
75	$32\frac{6}{7}$	$31\frac{6}{7}$	$30\frac{6}{7}$	$29\frac{6}{7}$	$28\frac{6}{7}$	$27\frac{6}{7}$	$26\frac{6}{7}$	$25\frac{6}{7}$	$24\frac{6}{7}$	$23\frac{6}{7}$	$22\frac{6}{7}$	$21\frac{6}{7}$	$20\frac{6}{7}$	$19\frac{6}{7}$	$18\frac{6}{7}$	$17\frac{6}{7}$
100	40	39	38	37	36	35	34	33	32	31	30	29	28	27	26	25

Your percentage of net profit is represented by the figure at the junction of the two columns

Explanation—If your cost of doing business is 15 per cent of your gross sales and you mark a line at 25 per cent above cost, your net profit is 5 per cent on sales—as shown in the diagram. If your cost of doing business is 18 per cent and you mark a line at 60 per cent above cost, your net profit is 19 1-2 per cent on sales.

COURTESY OF BUTLER BROS.

PART IV

COMPENSATION OF SALESMEN

COMPENSATION OF SALESMEN

Many of us remember the good years gone, never to return, when this subject was one that did not cause us much anxiety, for we engaged men who could sell a satisfactory amount of merchandise and the profits would take care of themselves; but time changes all things, and truly, time has changed the profits of a mercantile business, and we have arrived at a day when small sales and large profits would be a great consolation; but instead are compelled to face small profits, no matter how large or small our sales may be.

The Good Old Times

This condition naturally leads to the study of every expense very closely, and most merchants, in looking over their annual expense account, have discovered that the largest single item of expense is that of traveling salesmen, and it is the conviction of many that this expense is not shown in its entirety by the amount that is charged to that account on the books, but that traveling salesmen are an indirect expense to every concern in the way of reduced profits, and that we have arrived at a point when something must be done to check the almost lawless competition which is bringing about this reduction. It is useless to

Salesmen the Greatest Item of Expense

consider the idea of dispensing with their services entirely, as that has been tried and proven a failure, and the only resource left to us is to control those services in such a manner as will produce the best results for all interested. Their salaries must be paid, and in addition, railroad fares, hack fares, hotel bills, entertainment funds, and a hundred other expenses.

An equally important matter to consider is, do they devote their time and energy to our service?

The Straight Salary Method of Compensating Salesmen

Let us see what is the practice in this matter. Some jobbers select the best men they can find, pay them salaries they suppose they are worth, and furnish them money to pay general expenses, compelling them to render daily, weekly or monthly expense accounts.

Itemized Daily Expense Accounts

At first they deem it unnecessary to itemize these expense accounts, but later, as margins become closer, their expense accounts are scrutinized more closely, and they ask them to render weekly—itemized daily expense accounts, and more recently daily expense slips, mailed every night, are demanded by quite a few houses.

Examining these closely, they find railroad fares, hotel bills, hack fares, and "last, but not least," sundries. What this last item consists of—well, it is never known, and probably never will be known; possibly cigars, possibly dinners for customers, and no doubt many items not essential to the business.

The suggestion is also made that salesmen be re-

quired to place on these daily expense sheets the amount of their daily sales, and also the amount of previous sales for the current month. This serves the double purpose of impressing upon the salesman's mind just what results he is securing in the way of sales, and also daily reminds the sales manager of the work of each salesman as reported by him. The house records, of course, show the orders shipped and billed, but do not usually contain a record of the total amount of unshipped or future orders.

Salesmen Report Amount of Sales on Expense Sheets

The figures given by the salesman cannot be exact but will be accurate enough to serve the purpose.

By this straight salary system the salesman is fully protected to the amount of his salary and expenses, and there is no check upon his actions. If his sales are moderately good, he is secure in his position, and there is little to incite him to intelligent and conscientious labor in the interests of his employers.

Operation of the Straight Salary Method

The sole interest of many a salesman lies in showing a good volume of sales, and the most natural and laziest way to accomplish it is by convincing his customer that he is the man to deal with, because when he has it in his power, he will give him the benefit of all bargains and will at all times work in the customer's interest. It is easy to see that the tendency of this policy is a gradual reduction in selling prices, reducing the margin of profit below that

Salesman Often More Friendly to Customer Than to House

desired, and thus constituting the indirect expense which is spoken of above.

The Commission Plan

Another class of merchants adopt the plan of paying a fixed salary, with necessary expenses, and demanding in return for it a certain volume of sales, further agreeing, as an incentive, to pay a certain commission on all sales above that amount. The practical effect of this plan is to make the salesman indifferent to everything but sales. Profits become a minor consideration, and reduced profits enter largely into the cost to his employers.

Demoralizing Effect of Commission Plan

A commission on the sales basis has not been found satisfactory. The salesmen thus employed aim to increase their sales at the least possible expense. Volume rather than net results is their aim. Many good paying accounts are passed by because the customers are small buyers and the expense of securing the order is proportionately great. Usually such trade is profitable, and the resulting mail orders are more satisfactory than the larger trade, which is persistently solicited. It is a demoralizer of prices, and aims more towards mere tonnage than any other object. Moreover, it does not tend to elevate the standard of efficiency of the traveling salesman.

The attention of the traveling salesman should be devoted to the exploitation and education of the trade to profitable new goods of merit, and staple lines of goods which bear a fair profit to the house. A commission basis lends no encouragement to this whatever, but makes the staple and probably unprofitable

items the most attractive to salesmen, thus reducing the business from a merchandising to a commodity basis.

In using either of these plans, the employer is unwittingly working directly against his own interests, and when he awakens to the fact, must be anxious to find some way that will produce better results and yet afford his salesman a fair reward for his services.

It is self evident that any plan, to be successful, must be generally employed, and that the plan must be one that will make it to the interest of the salesman to obtain as large profits as are reasonable, proper and safe.

A New Method Needed

In the interest of trade in general, there is submitted to you a plan which is known to have been operated for some years past with beneficial results, and which is believed will be even more beneficial if adopted in all sections by all jobbers. For lack of a better name, it may be called the "Profit Sharing Plan," and is based not upon good looks, good address, or on the volume of sales, but entirely upon the volume of profits.

A Profit Sharing Plan Submitted

This plan is to pay the salesman a certain proportion of his profits to cover his salary and all expenses of every manner and kind. If one man can travel at an expense of $3.00 per day, and it costs another man $4.00, the man traveling at $3.00 should have the benefit of his economical habits. If one man can sell goods at 25% profit, and another is a slasher, and only makes 10%, selling possibly a few more goods,

Salesman Pays Own Expenses

but not making so large an aggregate profit, the first named should have the benefit of his good judgment and expert salesmanship.

Operation of Plan Not Costly

This plan, of course, makes it necessary for you to figure the profits on each and every sale, and you say at once, "Oh, my! I can never do that." "Why! see what it would cost," but no, you can do it, and the cost is nominal, for the entire profits on a business of over two millions of dollars per annum can be figured for less than three thousand dollars per annum, and this amount will be paid back to you many times by increased profits as soon as your men know you are figuring their profits, and instead of being an expense of three thousand dollars, it will cost you nothing and your profits will be largely increased.

A number of houses not doing an extremely large business have questioned the advisability of calculating the amount of gross profits on individual sales, but those who have given the system a trial find that the knowledge thus secured is indispensible.

Errors Detected in Invoicing

Errors in pricing are often found, and, at times, serious mistakes involving the loss of large amounts have been detected and rectified.

This method of auditing is also found to result in an increase of profits. The report of the profits on certain classes of goods is followed by an investigation which very often effects an advance in price to a figure which affords a profit.

The net results of the work of traveling salesmen are quickly ascertained by the totals given. In en-

abling the sales manager to pass intelligently on the work of the salesmen, it makes possible their remuneration strictly on a basis of their net earning capacity, and, of course, without costing the sales it would not be possible to secure the necessary figures.

Fluctuation in Cost

The market cost at time of sale is generally used as a base—as the selling price should always be based on current cost. In this way the house receives the benefit of any advance by reason of speculative purchases, and also suffers the loss on a declining market.

Detail of Work Not Complex

The details of this plan are quite simple. The sales books generally used have sufficient vacant space to provide for the column of figures necessary for the calculation of the profit, or of repricing the invoice at cost.

This work can all be neatly done in the sales book, and in order to preserve secrecy the work is often done in a special secret code used for this work only. All that is necessary is to employ one or more bright young ladies or men (ladies are sometimes preferred for this work), and after an order has been filled, figured and charged, this young lady takes it, prices it over again with the costs and refigures, giving her the cost of the order, and the amount of profit is readily ascertained. Some houses choose to figure the profit on each item, but either method brings the same result.

Then in a separate book, sometimes called the "Profit Book," the totals of sales and profits under the various salesmen's accounts are tabulated. In this book

each salesman is given certain pages and under his name is entered:

Date of the sale.
Name of the customer.
Amount of sale.
Profit on sale.

By properly keeping this record the results are readily accessible, and day by day, and week by week, and at the end of each month and year you have before you the sales and profits of each and every man.

Custom Relative to Mail Orders and Manner of Crediting Same

The custom differs in regard to crediting salesmen with orders received by mail or by personal visit of customers to the house. This matter is largely one of individual judgment. Many houses give their salesmen credit for all orders received from their customers regardless of the manner in which the orders come to them. They feel that if the salesmen tell their customers to hold their orders until they come around, some salesmen for other houses will get the business which is being held.

Other houses feel that their reputation and prestige commands a certain amount of business and only credit orders received through the salesmen, and credit no mail orders, except when the customers expressly request that the salesmen be given credit for the orders.

If desirable, the personally obtained and mail order business may be segregated by the use of separate columns.

The next matter to consider is what shall this proportion be, and how shall we arrive at it? Possibly

you may have a competitor who has made a study of it, and arrived at the proportions, and, if so, and you have the confidence in his ability to settle this matter for you, and his honesty in giving you the facts, then take his figures and start out at once. If not, then figure the profits on all your men for a year and the result will give you the correct figures to start in on, and at the same time you will probably find that salesman No. 1, who was supposed to be the best man you had, if not the best in your city, was not making you any money, and unless he can be engaged at considerably less than you have been paying him, you are better without his services.

Determining Percentage of Gross Profit for Salesmen

In deciding on these proportions of profits to pay your men, you must be fair and honest to them as well as to yourself. Do not attempt to be smarter than they, or to fool them in any manner, for, if you do, they will lose confidence in you, and naturally lose confidence in your business.

Fairness in Operating System

The percentage of the gross profits paid varies according to the nature of the business, volume and cost of securing and handling trade in various territories.

Neither can you allow each the same proportion of profits, for John Smith travels in a territory directly tributary to your city, his towns are close together and he can make two or more each day. He must work on a smaller proportion of profits than Tom Jones, who travels in a territory afar off,

City and Country Should Be on Different Bases

and perhaps, naturally, tributary to some other city. Tom cannot make more than one town each day, or perhaps two in three days, his railroad fare is more, etc., etc., so that while John Smith can make a good thing on 25 per cent. of his profits, Tom Jones should have 30 or 35 per cent. to make a satisfactory compensation.

As an example of the system:

A Concrete Case Showing Results

If a salesman visiting country trade sold $40,000 per annum at an average profit of 16 per cent. or $6,400,and he received 40 per cent of the gross profits, he would get as his share $2,560, and out of this he would pay his traveling expenses, which would average perhaps $1,000, leaving $1,560 for his own remuneration.

In presenting this profit plan to your salesman, he will probably say at once, "Well, I don't know about that, I have got to make about so much money, and I don't know whether I can do it or not," so you will undoubtedly be compelled to guarantee him that it will net him a certain amount the first year, but have it understood that this guarantee is only for one year. This being so very fair, he cannot hesitate to accept the proposition, and time will settle the future.

Special Conditions

When a special man is engaged in working up business with architects, builders and those placing contracts of various kinds, or large corporations who are visited by salesmen, but generally place orders by mail, it is an open question as to whether or not they should be on a straight salary basis. Where competitive bids are made, the business of securing the order passes more directly into the

hands of the house, and, in many cases, the salesman does not perform the vital part of the work. This is a matter which can readily be adjusted where it comes up, and should by no means interfere with the operation of the system.

Salaries of Salesmen Depend Entirely on Results

Compensation under this system depending entirely on merit and net results, when a salesman at the end of the year makes his pilgrimage to your office and tells you he is worth $200 more, you show him these figures and ask him why he is worth it.

Or if you have been paying him in proportion to his profits your reply is: "Yes, you ought to make more money, and if you will just increase your profits $1,000, you will get it." What will be his reply? Simply: "That's right; I'll get there this year sure," and he does get there.

The salesman's salary is automatically increased in months of good results and likewise reduced in poor months. The humiliating duty of reducing salaries is dispensed with, as the amount of remuneration lies largely on the personal work of the salesman involved. Many houses report that since they have adopted this plan, arguments with salesmen on this point have been a thing of the past.

Essentially a Partnership

Being a partner, at least as far as the customers on whom they call are concerned, the salesmen are liable to have a greater interest in the business and to more watchfully guard the interests of the house.

This profit sharing system has been found to be most potent in helping to

maintain established prices. There is no incentive like it. On a salary plan the entire body of salesmen is at war against firm "no deviation" prices; on a profit sharing plan the entire spirit is changed and stands for absolute maintenance of established prices which is sure to result in great benefits to all parties concerned.

The Custom in Regard to Bad Debts

Under this plan where certain bills are not paid it is customary to deduct the salesmen's share of the profit already paid from his account when the next settlement is made. In this way the salesman bears his share of the loss of profits, which interests him directly in maintaining good credit conditions with his trade.

Thus the house loses the cost of the goods and its share of the profit, while the salesman loses his share of the profit which would have been made if the account would have been a good one.

SPECIMEN OF FORM OF CONTRACT BETWEEN WHOLESALE HOUSE AND SALESMAN WHOSE COMPENSATION IS BASED ON THE PROFIT SHARING SYSTEM.

Memorandum of agreement entered into this 10*th day of August,* 1912, *between the Enterprise Wholesale Hardware Co., of the City of Philadelphia, Pa., party of the first part, and John Traveler, of the City of Altoona, Pa., party of the second part.*

The Enterprise Wholesale Hardware Co. agrees to employ the said John Traveler beginning August 12, 1912, *and the said John Traveler accepts such employment hereby.*

Confidential Contract.

The terms of this contract shall be kept strictly confidential and shall not be divulged to any one—either an employee, traveling salesman of our Company or to any competitor or outside party. Any failure to respect the confidential nature of this contract on the part of the party of the second part shall immediately operate as cancellation of this contract.

Party of the second part is to devote his entire services to the party of the first part and under no circumstances is the party of the second part to sell goods or do work for any other person or persons, firm or corporation. The party of the second part is to give his best efforts at all times and cover such territory as the party of the first part directs.

Compensation.

Party of the first part will pay party of the second part 30% *of his gross profits as per computation by party of the first part, same to cover salary and expenses, it being expressly understood that all orders shall be subject to the approval of the party of the first part and compensation paid only on such orders as are duly accepted and filled by the party of the first part.*

There shall be first deducted the share of profits which have been paid on any bad debt (as per clause

headed Bad Debts) that may have been sold by the party of the second part, or mail orders from such delinquent debtor which have been credited to said second party.

PAYMENTS.

Party of the first part will allow party of the second part advance payments at the rate of $125.00 *per month at the end of each calendar month on account of the earnings of the party of the second part up to the time such payment is made, final settlement to be made between December* 31*st,* 1912, *and March* 1*st,* 1913, *in case there is a balance due the party of the second part.*

GUARANTEE.

The party of the first part guarantees that this contract in its entirety will pay the party of the second part only the amount advanced as per clause entitled Payments—i. e., to say, party of the first part guarantees this contract only to the extent of making the payments to the party of the second part in its entirety in the amount advanced as per clause entitled "Payments."

MAIL ORDERS.

(See following optional clauses to be used as agreed upon.)

FORM NO. 1.

The account of the party of the second part is not to be credited with Mail Orders nor "house orders" received by the party of the first part from customers or from other merchants in the territory of the party of the second part.

Form No. 2.

(Or this Mail Order Clause may be made to read):

The sales by the party of the second part will be credited with each mail order on which the customer so makes a request, and the said party of the second part shall receive . . % of the profits on same, the same as if the order had been taken by said party of the second part in person.

Form No. 3.

(Or other houses who feel that it is best to credit all mail orders make this clause read):

The sales by the party of the second part will be credited with every mail order received from those merchants in his territory to whom the party of the second part has made a sale, and said party of the second part shall receive . . % of the profit on the same, the same as if orders had been taken by the said party of the second part in person.

Advance for Expense Money.

Party of the first part will guarantee to advance to the party of the second part $60.00 semi-monthly to cover expenses, etc., with the understanding that the party of the second part will mail daily report of expenditures and make final report and statement on the last day of each month for the expenses of the month.

Bad Debts.

Referring to the item of Bad Debts in clause headed "Compensation," the party of the first part is to deduct from the amount due the party of the second part at the end of the year or at the termination of this contract or at any time a bad debt may develop,

the amount of gross profit paid the party of the second part on all bad accounts sold by the said party. For instance, should one of the customers of the party of the second part fail or become in any way involved so that the account would be uncollectible owing party of the first part $100.00, *and the average gross profit on the account was* 20%, *or* $20.00, *the account of the party of the second part would be charged with* $6.00 *and party of the first part would stand the loss of* $94.00. *If at the termination of this contract, party of the first part has accounts sold by the party of the second part that are doubtful of collection, said party of the first part has the privilege of reserving an adequate part of the sum that may be due the party of the second part to protect said party of the first part against the proportion of the loss as set forth in this clause entitled Bad Debts which would otherwise be retained by the party of the second part. Party of the first part, however, agrees to ascertain the true condition of any such account within a reasonable time—not longer than four months—after the expiration of the contract.*

TERMINATION.

This contract may be terminated at any time by either party, by giving the other party 30 *days' notice. If, however, it is desired by the Enterprise Wholesale Hardware Co., it may assign to said party of the second part such duties in the house as it may desire to do for the said period of thirty days, and pay said party of the second part the sum of* $125.00 *in full compensation for all services and expenses incurred during*

period of 30 *days in lieu of amount named in paragraph headed Compensation.*

(*Signed*) ENTERPRISE WHOLESALE HARDWARE CO.
JOHN TRAVELER.

Now this system has been fully outlined, but we want to mention to you some of the objections to putting such a plan into effect just as it has been herein given, and to suggest some means of overcoming the objections so that the system will be altogether satisfactory and acceptable.

Some objections which have been raised are:

That it is claimed that under this contract the salesman would know the cost of goods, and that this would cause the salesman to have information which should not properly be his.

That it opens a way to a constant disagreement with the salesman in that if you give them the cost truthfully they may go out and find some other salesman who has a lower cost, who will imagine that the house is not treating him honestly and fairly.

That it makes every purchasing agreement public property, if you let the salesman know of it, and he will probably know of it.

That if the salesman disputes your figures, he may seriously embarrass you by bringing you into Court and forcing you to show all the private and confidential figures of your business.

These objections are within the realm of possibilities, but we must say that they have not developed in the practical operation of the system, but rather with a discussion of the system by business men.

As a means, therefore, of overcoming the objections, the suggestion is offered that the Profit Sharing Plan may be operated by the house, but the salesman should not be made a party to a contract which will involve the division of any given percentage of the profit.

Rather, a contract should be made based on a guaranteed salary and a statement by the house that very careful attention will be given to the matter of profits on the sales affected, and that if the salesman's results show a satisfactory gross profit to the concern, he will receive a bonus.

The salesman can be given a guaranteed salary or drawing account month by month in the regular way.

This plan is merely suggested to overcome objections suggested. Under it, the firm can feel free to operate the Profit Sharing Plan with their salesman and to determine his remuneration on that basis.

They will, further, not be under the necessity of making the cost known to the salesman, nor could the salesman take the house into court, because there would be no contract calling for a fixed percentage on the gross profit as a basis of compensation.

This system of compensating salesmen by giving them a percentage of the gross profit on all goods which they sell, is operating satisfactorily with hundreds of large wholesale houses, and it has met with the approval of successful salesmen throughout the country.

In discussing the plan some men have objected that under its provisions salesmen would in

many cases know the cost of goods, and that they are not entitled to this information.

Now it is not necessary under this contract to make known to the salesman the cost of goods, unless one desires to do so. The house agrees to figure the profits based upon their cost. That they should do so honestly and fairly to both is taken for granted. For honesty is necessary in all things, and no business house can succeed which for a moment takes advantage of its employees, whose contracts were based on profits.

If it is necessary to go into this matter of who shall be the arbiter of the correctness of the figures, it would appear that the house should settle this question.

In many houses profits are figured by trained employees who figure with precision and care and without a thought of anything other than absolute correctness.

Another Form of the Profit Sharing Plan.

Basing other plans upon the same general principles and advantages as those noted in the foregoing plan, a large wholesale house recently formulated a plan for compensating salesmen which has for its main feature, the securing of a fixed base minimum percentage of profit. The general manager or sales manager of the jobbing house or members of the firm or officers of the company decide upon this base percentage of profit to be used as a minimum in making salesmen's contracts at the beginning of the year.

To arrive at this base percentage of profit the cost of doing business is accurately ascertained, and from 2 to 5% is added to pay a profit to the business and to cover risks attendant upon the enterprise. Thus in many wholesale houses the base percentage of profit is from 16 to 22%. The salesman must average this percentage of profit before he is entitled to a bonus under the contract, which is as follows:

SAMPLE OF CONTRACT FOR COMPENSATING SALESMEN REQUIRING THE MAINTENANCE OF A MINIMUM AVERAGE PERCENTAGE OF PROFIT AND MINIMUM GROSS SALES IN ORDER TO OBTAIN BONUS.

We will give you a salary during 1911 *of* $125.00 *per month. If the shipments made during* 1911 *on orders received from our customers upon whom you call as per list on file in our office, exceed* $70,000, *we will pay you one per cent. on the excess, provided the percentage of profit on shipments is equal to or above the base percentage of profit.*

We have adopted a base percentage of profit, and if the percentage of profit on shipments made during 1911 *on orders from said customers exceed this base, and provided your sales are at least* $70,000, *we will pay you in addition* 25% *of the excess profit on said shipments. In estimating said "excess profits" on said shipments, bad debts shall not be taken into account. If said shipments do not amount to* $70,000, *there will be no bonus due you for excess profit.*

Upon settlement of bonus or premium accounts upon the basis above, we will allow you a loss of ¾ *of*

1% for bad debts which are charged off at the end of the year for goods shipped during the year; but should shipments show a greater loss than ¾ of 1%, you are to stand 25% of the loss above the ¾ of 1%, so far as your bonus or premium account will extend. This loss is to be deducted from any premium or bonuses which you make above your salary, but will not be deducted from your salary, nor carried over into any subsequent year.

Your expenses for the year are not to exceed $1,500.00 in amount. If they do, the excess sum is to be deducted from your premium or bonus account.

These bonuses or premiums are to be paid by us during the month of January, 1912, and are to be based solely upon the statistics furnished by our Statistical Department and said statistics shall not be subject to revision or readjustment.

We reserve the right at any time to change your territory or list of customers when it seems to be to the best interests of the company to do so. We also reserve the privilege of dispensing with your services at any time should they not be satisfactory to us. Should we do this, you will not be entitled to any bonus or commission under this arrangement, but shall receive salary only, apportioned to the date of our notice of dismissal.

Should you elect to leave our employ during 1911, there will be no bonus or commission due you, and we shall owe you salary only, apportioned to the date of your resignation.

Your account is not to be credited with goods

shipped on orders for use in government work unless specially arranged in advance.

ENTERPRISE WHOLESALE HARDWARE CO.

I have read the above carefully and am entirely satisfied with the provisions and accept the same for the year 1911.

JOHN TRAVELER.

As an example of the operation of the plan, for instance, suppose a man's minimum sales limit were $70,000 and he sold $90,000 and his percentage of profits was 2% above the base. The bonus he would get would be as follows:

1% of $20,000	$200.00
25% of 2% is ½ of 1% on $90,000	450.00
Making total bonus of	$650.00

Some of the advantages of this plan are: Salesmen endeavor to sell profitable goods, thereby maintaining high average profit instead of working for volume; salesmen are interested in minimizing the loss from bad accounts and unfair allowances; maximum traveling expenses are fixed, and loyal and efficient service is secured through interesting the salesmen directly in the net results of their business.

It has been said by Frederick Winslow Taylor, author of the well-known work entitled *"The Principles of Scientific Management"*:

"The principal object of management should be to secure the maximum prosperity for the employer, coupled with the maximum prosperity for employee.

"The words 'maximum prosperity' are used in their broad sense to mean not only large dividends for the company or owner, but the development of every branch of the business to its highest state of excellence, so that the prosperity may be permanent.

"In the same way the maximum prosperity for each employee means not only higher wages than are usually received by himself or his class, but, of more importance still, it also means the development of each man to his said maximum efficiency, so that he may be able to do, generally speaking, the highest grade of work for which his natural abilities fit him, and it further means giving him, when possible, this class of work to do."

The operation of a plan calling for a share of profits to the salesman should certainly tend to develop an increase in the volume of business, an increase in the volume of profits and a decrease in the expense account. The development of the employee into a business man of the highest quality should, therefore, be a natural development of his employment on a profit sharing basis.

The Beneficial Results of Figuring Profits

Another very important factor in the figuring of profits is that you know just exactly how your business is running, and, if during the first three or four months of the year, you find you are not making as much money as you ought, you immediately begin to study what course to follow, and have eight or nine months left to study what steps to take to correct any existing evils, while if you do not figure profits, you cannot tell until the year is over

whether you are making money or not, and then, after taking your annual inventory, if the year has been unsatisfactory, you can only regret it, for the year is gone, and no time left to correct these evils.

A Chart and Compass to the Business Man

To conclude, the opinion is ventured that a concern doing a jobbing business, that expects to continue in the business, will be compelled to figure their daily profits, or eventually go out of business, for there are so many unprofitable lines in the business that the concerns who do figure their profits and pay their men accordingly, will work and sell the profitable goods, and leave for you the staples that foot up large sales with no profits.

Popular With Successful Salesmen

Furthermore, the plan advocated above has been tried and found successful. Salesmen have doubled their salaries the very first year, and you are glad to have them do so, for every time they make $100.00 more for themselves, they are making $200.00 to $300.00 more for you, so the more they make the better you like it.

PART V

THE MIDDLE-MAN AS AN ECONOMICAL MEDIUM OF DISTRIBUTION

THE MIDDLE-MAN AS AN ECONOMICAL MEDIUM OF DISTRIBUTION

The American market is probably the most complex in the world, occupying, as it does, the largest economically high-grade area under one political control with uniform trade customs, laws and language.

Our Market a Complex One

This has compelled an extensive internal exchange and made necessary comprehensive methods of performing mercantile functions which have been provided by many master minds in commercial spheres.

During the period of time up to the great financial depression of 1873 the demand for goods was largely supplied by importation from foreign countries.

The merchant of those days was an importer of goods made in Europe and other parts of the world, distributing the goods to consumers located thousands of miles from the point of manufacture, as there had yet been no development of manufactures in this country.

During the past forty years the manufacturers of the country have made great progress, and in this they have enjoyed many advantages not to be obtained elsewhere.

Manufacturers Have Enjoyed Advantages in the United States

They have had the benefit of an entire absence of prejudice against machinery; a protective tariff and patent

legislation, and unusual mechanical ability of the people as well as great mobility of labor.

The tendency to progress and economize in methods of manufacture led the manufacturers to provide simultaneously for all stages of production, taking into the factory the raw material in its first state and turning out the completely finished material ready for the consumer, this method being in direct contrast to former practices.

Economy in Manufacturing Processes

Distribution.

In considering the attitude of the manufacturer toward the market relative to the sale of his product, we find considerable difference in the policy pursued by many concerns.

Formerly the manufacturer confined his activities to manufacturing only, but now he has felt it necessary to create a market for his goods by publicity and also to perfect arrangements for their distribution.

Various Modes of Distribution

Some manufacturers prefer to undertake the distribution of their goods direct to the small trade and to the consumer. This is sometimes done through direct salesmen or a mail-order system, and involves a vast amount of detail at the factory or central office.

Manufacturers to Consumers Direct

Thousands of small accounts, with infrequent buyers, must be kept. If personal visits are made by representatives who sell the line of goods manufactured, the traveling expense and sal-

ary of such direct representatives is quite heavy, often averaging from 15 per cent. to 20 per cent. on the sales effected. This direct method of selling is only possible where the individual sales are large, as manufacturers of small goods could not afford such a heavy expense.

Direct Buying Induces Overloading Buyer

From the standpoint of the buyers this method has many disadvantages. It either involves overbuying and an excessive investment of money at certain periods of the year, or a great number of small shipments extending throughout the year, and involving delays and heavy freight charges from distant and widely separated factories.

Branch Factory Stores or Warehouses

Another method of direct contact is pursued by some in the establishment of distributing depots at central points. This method involves all the expense of a regular wholesale business, and the advantage sought is thus lost, as the regular distributive agencies would be able to undersell in many cases, for the expense would be divided among hundreds of other lines of goods, lessening the expense of selling all or any one manufacturer's product.

Manufacturers' Unfair Competition Demoralizes Conditions

The greatest invasion of the mercantile field in the distribution and sale of manufactured products occurs under the influence of strong and sometimes vindictive competition between manufacturers. This condition is quite demoralizing, and after it has spent its force the warring factions often get together and form a "pool" or enter into "gentlemen's"

agreements, controlling competition and substituting therefore co-operation, emulation, and comparison of records, frequently resulting in a higher scale of prices and improved conditions surrounding the sale of their product.

Advertising and general publicity work have been great factors in promoting closer relations between manufacturers and consumers and have materially changed the complexion of trade. The manufacturer feels that the distribution of his product is assured, regardless of the will of the dealer.

Advertising Has Changed Conditions

Experience, however, has served well to demonstrate the wisdom of employing the regularly established agencies of distribution, and the large majority of manufacturers recognize this fact.

Regular Avenues of Distribution Are Best

The wholesaler or jobber offers to the manufacturer a very satisfactory method of distribution, and is of advantage to both the manufacturer and the trade.

First it is necessary to know what constitutes a jobber. This is difficult to determine by a fixed rule or definition which would invariably apply. Generally speaking, the jobber is found in large cities recognized as distributing centers, possessing ample transportation facilities by rail or water. It is essential that a large and well-assorted stock be carried, and that a corps of traveling salesmen be regularly employed in visiting the retail trade.

What is a Jobber?

If these qualifications are present, and the house

exercises the legitimate functions of a distributor at wholesale, it should be classed as a jobbing house, and enjoy all rights and privileges as such.

The one who is not considered as a jobber, however, is he who buys far in excess of his legitimate requirements, for the purpose of inducing some manufacturer to extend to him his best jobbers' prices, when the goods are merely for local retail business.

The Psuedo Jobber

If such a dealer finds it necessary to carry his deception still further, he often makes a pretense of being a legitimate wholesaler by sending bookkeepers or clerks as traveling salesmen to see some trade, to further bear out his false claims. After securing goods at jobbers' prices in such a manner, however, it is often necessary to dispose of the surplus quickly to the customers of legitimate jobbers, and this is often done at or near cost, to the general demoralization of prices on the line purchased.

Jobbing schedules should not be extended to syndicates of small dealers, buying either as a syndicate or through some one dealer. Such arrangements are detrimental to other dealers who are not parties to such a combine and an unfair advantage is thus secured, harming the legitimate jobbers as well as the outside dealer.

Classified Lists of Buyers

It is the purpose of many trade associations to collect and keep on file in their offices full and complete information regarding all houses doing or claiming to do a legitimate jobbing business, and this information is given free of charge at all times, to those man-

ufacturers entitled to it, as an opinion without bias, based on fact.

Mr. Charles A. Moore, president of Manning, Maxwell & Moore, in an address delivered at the convention of the National Supply and Machinery Dealers' Association, some time since, said:

The Jobber a Useful Factor

"In the broader sense of the word, the true merchant is a part of the most conservative banking guild of the world. He may not sell money directly as does the national bank, but in furnishing funds to the producing manufacturer for goods purchased from him, before the merchant has resold the manufactured product, he acts as a true banker, loaning on the most legitimate security in the world —the needed products of labor."

The jobber is properly regarded as the most universal servant of industrial society. His functions are both varied and intricate, blending the mechanical element with the art of personal service; controlling a flow of goods involving endless detail by a system, the correct formulation of which is a masterpiece of commercial statesmanship. Through his work in placing supplies of goods at points most convenient to the dealer and consumer, he creates a desire for better goods by constant display, and contributes in no small degree to the moral uplift and betterment of the community.

Through large purchases by the jobber the business of manufacturing is expedited and the manufacturer is enabled to produce his goods at a minimum cost. This effects production of merchandise at a

greater profit to the maker, and at the same time at a lower price to the ultimate consumer than would otherwise be possible. Through the jobber the manufacturer is assured a constant channel of distribution, insuring continuity of operation of his plant, so long as the general conditions maintain the demand.

In the case of manufacturers of seasonable goods, the co-operation of the jobber, through ordering far in advance of the season, makes possible the operation of their plants for almost the entire year.

The jobber's task is to furnish the goods wanted at the time, and in the quantity and place desired. He, through his corps of expert buyers, each skilled in his own individual line, chooses his stock from the infinite variety of manufactured articles. He selects with great skill and care the goods of the highest quality and of the sizes, kinds and styles best suited to the requirements of the market catered to in quantities which command the lowest prices.

How the Jobber Serves the Public

He educates his customers to new wants, making known to them new goods, and showing their uses and advantages at considerable expense and labor. He advises them in their purchases that the adjustment of the want, the goods and the pocketbook may be as perfect as possible.

He makes the buying process easy and agreeable for his customers. He protects his merchandise from deterioration. He guarantees it to be as represented, putting his reputation behind it.

He measures it out in the quantity convenient for the customer, puts a fair price on it, and delivers it.

He purchases in carloads or large shipments from the various factories, securing the advantage of the lowest through freight rate to his city.

In selling goods again, he ships these goods along in the same invoice with those of many other makers, and delivers them at a small local rate of freight. This merging enables supplies to be purchased more frequently at a great saving of money invested and freight charges. From the standpoint of the trade, the jobber is of great convenience and affords a service of illimitable economy in many ways. Urgent orders can be filled instantly from the nearby jobber, and the advantage of having these bases of supply so conveniently located in every section of the country cannot be overestimated. It is unnecessary for the trade to tie their money up in large stocks, for the jobber, with his thousands of customers, can well afford to and does carry a full and complete line of all goods required in his territory.

Economy and Convenience of the Service of Distributor

Among others who have written on the subject, the noted political economist, Henry George, sets forth at some length the economy and convenience of the "middleman" or jobber, and his position as a powerful factor in reducing the cost of distribution and the ultimate price to the consumer. We are pleased to hear such testimony from an unbiased student of economic conditions, whose sole thought is to determine the method of distribution which is of greatest benefit to the greatest number of the people.

Noted Political Economist Favors Middleman

The merchant is virtually a most important factor

in cheapening production, ultimately benefiting the consumer.

The services of the middleman are recognized by railroads, industrial corporations and municipalities in the marketing of bond issues. Those who market such bonds are able to do so at far greater advantage than would the makers themselves and at less expense.

Dealer Short Sighted in Overbuying From Manufacturer

Manufacturers often name low prices to dealers to induce overbuying, and frequently lead the dealer to purchase the goods offered. The wisdom of such a purchase is doubtful, and could not as favorable a price have been secured from the jobbers on a smaller lot? The probabilities are that it could, and there would have been no desire to overload the customer, for it would have been certain to react on the jobber. As for the manufacturer, however, his visits are infrequent, and such matters are not of consequence to him, as he feels that with the purchase of a large quantity of his goods, no other maker will be able to secure a footing.

Jobber Better From a Credit Standpoint

Again, in the matter of credit. When in need of a little extra time the trade can come to the jobber who is well acquainted with local conditions and will be sure to receive the aid desired. The distant manufacturer cannot be reached in this way, and he is less apt to grant such accommodations. He only sells the trade once or twice a year; his bill is large, and he cannot be annoyed and is not accustomed to such requests, feeling that his bill should be paid at once, regardless of local conditions.

The merchant buys under a minimum of competition, considering the agreements among manufacturers, clubs, pools, etc., and sells against free and open competition, so that the small margin of net profit obtained by him is in nowise unreasonable.

The majority of manufacturers rely upon the jobber as the proper agency for marketing their goods, and realize that aside from any sentiment or kindly feeling, he affords the most economical, easiest and logical method, and the only *constant* channel of distribution.

Manufacturers Should Protect Jobbers' Interests

Following out this policy, such manufacturers safeguard the jobbers' interest closely, and the most loyal of these manufacturers have no price whatever for other trade. They refer all who apply for prices to their nearest jobbers, and then advise their jobbing customers of their action.

Other manufacturers who do not choose to pursue this plan handle the matter by quoting inquirers a shade higher than the prices asked by jobbers, and thus, for the purpose of trade, turning it into its proper channel.

The Unfair Manufacturer

There is another class of manufacturers who profess to be loyal to the jobbers, but who do not live up to their announced policy. After supplying the needs of the jobber and loudly proclaiming themselves as his consistent supporters, they surreptitiously visit his customers, selling them the same goods at little or no advance over the prices charged the jobber for the immense quantity purchased. This leaves

the jobber with his stock on hand after the manufacturer has deprived him of his market. The sinister character of such a dishonorable proceeding as this is evident, yet, owing to the lack of a medium through which information regarding this sort of competition could be transmitted to the jobbing trade, the practice has been permitted to continue.

If, then, all these facts regarding the jobber are substantially correct, the trade becomes the legitimate customer of the jobber, and by every law of equity and justice the manufacturer should refrain from interfering with the jobber in the enjoyment of his rights.

HF 5353 .F4

Fernley, Thomas A.

Price maintenance
